

Audit and Governance Committee

**** Members are asked to attend a private training session on Treasury Management at 6pm in the Civic Suite immediately before the meeting ****

Meeting: Thursday, 26th June 2014 at 6.45 pm in Civic Suite, North Warehouse, The Docks, Gloucester, GL1 2EP

Membership:	Cllrs. Wilson (Chair), Hobbs (Vice-Chair), Llewellyn, Noakes, Haigh, McLellan and Taylor
Contact:	Parvati Diyar Democratic Services Officer 01452 396192 parvati.diyar@gloucester.gov.uk

AGENDA

1.	APPOINTMENT OF CHAIR AND VICE-CHAIR To note the appointments made by Council at the Annual Meeting:- Chair – Councillor Wilson Vice Chair – Councillor Hobbs
2.	APOLOGIES To receive any apologies for absence.
3.	DECLARATIONS OF INTEREST To receive from Members, declarations of the existence of any disclosable pecuniary, or non-pecuniary, interests and the nature of those interests in relation to any agenda item. Please see Agenda Notes.
4.	MINUTES (Pages 7 - 16) To approve as a correct record the minutes of the meeting held on 17 March 2014.
5.	PUBLIC QUESTION TIME (15 MINUTES) To receive any questions from members of the public provided that a question does not relate to:

	<ul style="list-style-type: none"> • Matters which are the subject of current or pending legal proceedings, or • Matters relating to employees or former employees of the Council or comments in respect of individual Council Officers
6.	<p>PETITIONS AND DEPUTATIONS (15 MINUTES)</p> <p>To receive any petitions and deputations provided that no such petition is in relation to:</p> <ul style="list-style-type: none"> • Matters relating to individual Council Officers, or • Matters relating to current or pending legal proceedings
7.	<p>UPDATE ON COMBINED HEAT AND POWER INSTALLATION AT GL1 (Pages 17 - 18)</p> <p>To receive an update from the Asset Manager, as requested by the Committee, relating to the combined heat and power installation at GL1.</p>
8.	<p>AUDIT AND GOVERNANCE COMMITTEE ACTION PLAN (Pages 19 - 20)</p> <p>To consider the Action Plan.</p>
9.	<p>KPMG INTERIM AUDIT REPORT 2013/14 (Pages 21 - 36)</p> <p>To receive the report from KPMG relating to the Interim Audit Report 2013/14.</p>
10.	<p>KPMG ANNUAL AUDIT FEE LETTER 2014/15 (Pages 37 - 42)</p> <p>To receive the report from KPMG relating to the Annual Audit Fee Letter 2014/15.</p>
11.	<p>KPMG PROTECTING THE PUBLIC PURSE FRAUD BRIEFING 2013 (Pages 43 - 60)</p> <p>To receive the report from KPMG relating to the Fraud Briefing 2013.</p>
12.	<p>KPMG EXTERNAL AUDIT PROGRESS REPORT AND TECHNICAL UPDATE (Pages 61 - 76)</p> <p>To receive the report from KPMG on the audit progress report and technical update.</p>
13.	<p>INTERNAL AUDIT PLAN 2013/14 - MONITORING REPORT (Pages 77 - 90)</p> <p>To receive the report of the Audit, Risk and Assurance Manager informing Members of the remaining audits completed as part of the approved Internal Audit Plan 2013/14.</p>
14.	<p>AUDIT, RISK AND ASSURANCE MANAGER'S ANNUAL REPORT 2013/14 (Pages 91 - 102)</p> <p>To receive the report of the Audit, Risk and Assurance Manager which provides Members with a brief overview of Internal Audit work for the financial year ending 31 March 2014.</p>

15.	<p>REVIEW OF EFFECTIVENESS OF INTERNAL AUDIT (Pages 103 - 114)</p> <p>To receive the report of the Audit, Risk and Assurance Manager informing Members of the outcome of the review of the effectiveness of Internal Audit as required under the Accounts and Audit (England) Regulations 2011.</p>
16.	<p>TREASURY MANAGEMENT UPDATE - QUARTER 4 REPORT 2013/14 (Pages 115 - 132)</p> <p>To receive the report of the Corporate Director of Resources concerning an update on treasury management activities for Quarter 4, covering the period 1 December 2013 to 31 March 2014.</p>
17.	<p>ANNUAL GOVERNANCE STATEMENT (Pages 133 - 152)</p> <p>To receive the report of the Corporate Director of Resources on the requirement to prepare and obtain approval on the Annual Governance Statement 2013/14.</p>
18.	<p>AUDIT & GOVERNANCE COMMITTEE ANNUAL REPORT 2013/14 (Pages 153 - 162)</p> <p>To receive the Annual Report of the Audit and Governance Committee which sets out the work and achievements during 2013/14.</p>
19.	<p>INDEPENDENT PERSON PROTOCOL (Pages 163 - 170)</p> <p>To receive the report of the Monitoring Officer considering the adoption of a protocol in relation to the Independent Person.</p>
20.	<p>COMMITTEE WORK PROGRAMME (Pages 171 - 174)</p> <p>To consider the Committee's Work Programme.</p>
21.	<p>DATE OF NEXT MEETING</p> <p>Monday, 8 September 2014 at 6.30pm.</p>



.....
Peter Gillett
Corporate Director of Resources

Date of Publication: Wednesday, 18 June 2014

NOTES

Disclosable Pecuniary Interests

The duties to register, disclose and not to participate in respect of any matter in which a member has a Disclosable Pecuniary Interest are set out in Chapter 7 of the Localism Act 2011.

Disclosable pecuniary interests are defined in the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 as follows –

<u>Interest</u>	<u>Prescribed description</u>
Employment, office, trade, profession or vocation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	Any payment or provision of any other financial benefit (other than from the Council) made or provided within the previous 12 months (up to and including the date of notification of the interest) in respect of any expenses incurred by you carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.
Contracts	Any contract which is made between you, your spouse or civil partner or person with whom you are living as a spouse or civil partner (or a body in which you or they have a beneficial interest) and the Council (a) under which goods or services are to be provided or works are to be executed; and (b) which has not been fully discharged
Land	Any beneficial interest in land which is within the Council's area. For this purpose "land" includes an easement, servitude, interest or right in or over land which does not carry with it a right for you, your spouse, civil partner or person with whom you are living as a spouse or civil partner (alone or jointly with another) to occupy the land or to receive income.
Licences	Any licence (alone or jointly with others) to occupy land in the Council's area for a month or longer.
Corporate tenancies	Any tenancy where (to your knowledge) – (a) the landlord is the Council; and (b) the tenant is a body in which you, your spouse or civil partner or a person you are living with as a spouse or civil partner has a beneficial interest
Securities	Any beneficial interest in securities of a body where – (a) that body (to your knowledge) has a place of business or land in the Council's area and (b) either – i. The total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or ii. If the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, your spouse or civil partner or person with

whom you are living as a spouse or civil partner has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

For this purpose, “securities” means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

NOTE: the requirements in respect of the registration and disclosure of Disclosable Pecuniary Interests and withdrawing from participating in respect of any matter where you have a Disclosable Pecuniary Interest apply to your interests and those of your spouse or civil partner or person with whom you are living as a spouse or civil partner where you are aware of their interest.

Access to Information

Agendas and reports can be viewed on the Gloucester City Council website: www.gloucester.gov.uk and are available to view five working days prior to the meeting date.

For further details and enquiries about this meeting please contact Parvati Diyar, 01452 396192, parvati.diyar@gloucester.gov.uk.

For general enquiries about Gloucester City Council’s meetings please contact Democratic Services, 01452 396126, democratic.services@gloucester.gov.uk.

If you, or someone you know cannot understand English and need help with this information, or if you would like a large print, Braille, or audio version of this information please call 01452 396396.

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Any recording must take place in such a way as to ensure that the view of Councillors, Officers, the Public and Press is not obstructed. The use of flash photography and/or additional lighting will not be allowed unless this has been discussed and agreed in advance of the meeting.

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- You should proceed calmly; do not run and do not use the lifts;
- Do not stop to collect personal belongings;
- Once you are outside, please do not wait immediately next to the building; gather at the assembly point in the car park and await further instructions;
- Do not re-enter the building until told by a member of staff or the fire brigade that it is safe to do so.

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AUDIT AND GOVERNANCE COMMITTEE

MEETING : Monday, 17th March 2014

PRESENT : Cllrs. Wilson (Chair), Hobbs (Vice-Chair), McLellan, Noakes, Llewellyn and Gilson

Others in Attendance

Councillor Wood, Cabinet Member for Performance and Resources
Darren Gilbert, KPMG
Duncan Laird, KPMG
Peter Gillett, Corporate Director of Resources
Terry Rodway, Audit, Risk and Assurance Manager
Sue Mullins, Head of Legal and Policy Development
Andrew Cummings, Management Accountant
Richard Webb, Asset Manager
Ross Cook, Head of Neighbourhood Services
Parvati Diyar, Democratic Services Officer

APOLOGIES : Cllr. Porter
Jon Topping, Head of Finance

88. DECLARATIONS OF INTEREST

There were no declarations of interest.

89. MINUTES

The minutes of the meeting held on 25 November 2013 were confirmed as a correct record and signed by the Chair.

90. MINUTES OF SPECIAL AUDIT AND GOVERNANCE COMMITTEE

The minutes of the special meeting held on 27 January 2014 were confirmed as a correct record and signed by the Chair.

91. PUBLIC QUESTION TIME (15 MINUTES)

There were no questions from members of the public.

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92. PETITIONS AND DEPUTATIONS (15 MINUTES)

There were no petitions or deputations.

**93. RESPONSE TO INTERNAL AUDIT REPORT RECOMMENDATIONS -
RESPONSE REPAIRS CONTRACT**

The Committee received the report of the Asset Manager which provided an update following an audit recommendation that the current contract arrangements relating to the Response Repairs Contract be reviewed.

The Asset Manager advised that contract arrangements had been reviewed with the Contractor. The Contractor was keen to keep the contract and had shown a willingness to work with the Council to resolve issues.

It was identified that the Contractor was struggling to cover the costs of the large volume of small or minor works. The Contractor was deploying staff to undertake work with low values (less than £200) and then returning a few days later to the same site or nearby to undertake similar value works and this was not sustainable for the Contractor. It was therefore agreed by both parties that non-urgent low value works would be clustered by timescale and geographical location.

The Asset Manager advised that work had started on agreeing a suitable format for Key Performance Indicators (KPI's). Advice had been taken from Legal Services as to whether a contract amendment would be required to allow works to exceed the 72 hour timeframe.

Regular review meetings would be held with the Contractor to ensure issues are addressed.

The Chair asked whether, if the Contractor was finding it difficult to meet the Council's strict criteria, by giving them increased flexibility, the Council would be at a disadvantage. The Asset Manager said that the Council would continue to benefit from the same rates, which were based upon National Schedule of Rates, less an agreed discount.

The Asset Manager would ensure Officers communicate information following requests from members of the public and Councillors concerning repairs and maintenance works.

Members thanked the Asset Manager for his attendance.

RESOLVED that the information contained in the report be noted.

94. STREETCARE MONITORING SHEET MARCH 2014

The Committee received the Streetcare Contract Monitoring sheet provided by the Head of Neighbourhood Services relating to the implementation of agreed internal audit recommendations.

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The Head of Neighbourhood Services advised the Committee that considerable progress had been made and a number of recommendations completed. Some recommendations would be completed by the end of this month.

It was noted that item 3 on the monitoring sheet should be amended as the Head of Neighbourhood Services was now the owner of this following the departure of the Environmental Services Manager. It was also noted that a target date had been omitted from item 14 but draft dates had been agreed with the Contractor.

In response to a question from Councillor McLellan, the Head of Neighbourhood Services confirmed that there had been no disputes with the Contractor and positive communication was continuing. Following the overpayments relating to pavilion attendance, credit notes were now on the system.

The Finance Change Manager had agreed to ensure the same methodology and calculation was agreed.

The Head of Neighbourhood Services confirmed that new processes had been introduced and a procedure was in place to monitor the works. The monitoring sheet would be presented to the Strategic Streetcare Partnership Board before any works are signed off.

The Committee recognised the positive work which had been undertaken.

Members thanked the Head of Neighbourhood Services for his attendance.

RESOLVED that the report be noted.

95. AUDIT AND GOVERNANCE COMMITTEE ACTION PLAN

The Corporate Director of Resources presented the updated action plan.

Councillor Llewellyn asked for an update on the Combined Heat and Power installation at GL1.

The Corporate Director of Resources advised that an external consultant had looked at the CHP and believed that the performance could be significantly improved by adjusting the current settings that control the supply and return temperatures. He believed that a trial and error approach would identify optimum settings and this would be a relatively inexpensive exercise.

Aspire's energy consultant had also looked at the CHP and believed the problem could be more complicated. Therefore Aspire and the City Council had jointly instructed an external consultant to attend on site on 26 March 2014 to undertake a survey and produce a recommendation report. The report would identify whether the interaction with plant was satisfactory and what measures would be required to improve efficiency. It was hoped the report would be received by the end of March 2014.

Members were advised that poor performance could be due to a number of factors including how the unit interfaced with other plant and the main boilers. The City

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Council had recently repaired and commissioned the third boiler which had been broken for a number of years. The plant room now provided a better platform for performance testing.

The Corporate Director of Resources agreed to ask the Asset Manager to provide the Committee with an update on progress and a chronology of events.

Councillor Noakes suggested the action plan should be amended as follows:

- Items 17 and 23 relating to the Combined Heat and Power installation at GLT should be rated as red.
- Item 21 relating to the Internal Audit Plan 2012/13 should be rated green.
- Item 69 relating to the Treasury Management Training event should be rated as 'action completed'.

Councillor Noakes asked officers to ensure the action plan was updated before the next Committee meeting.

In relation to the purchase of software with a modern stock control facility at The Guildhall, the Corporate Director of Resources advised that interviews would be held on 11 April 2014 with candidates who would carry out this specific review.

The Audit, Risk and Assurance Manager advised that a member of the Audit team was on the project team set up to implement the new Fixed Asset Register. The Management Accountant advised that work to upgrade to the Financial System was still ongoing and this would be in place for the next financial year.

Councillor Noakes commented that the current status column on the action sheet should have been amended to reflect the updates.

RESOLVED:

- 1. That the Asset Manager be requested to provide an update on progress and a chronology of events relating to the Combined Heat and Power Installation at GL1.**
- 2. That the Action Plan be updated with the suggested amendments.**

96. KPMG CERTIFICATION OF GRANTS AND RETURNS 2012/13

Darren Gilbert, Director of KPMG introduced Duncan Laird to the Committee.

Mr. Laird presented the report which summarised the certification of grants and returns for 2012/13 undertaken by the Council's external auditors, KPMG.

He advised Members that unqualified certificates had been issued in respect of two grants and returns but qualification was necessary relating to the Housing and Council Tax Benefits Scheme as the Authority had not used the latest version of the Civica Open Revenues System to prepare the grant claim form.

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The Corporate Director of Resources advised that colleagues in Civica had confirmed that new software would be in place.

The Committee noted that the fees had been reduced.

RESOLVED that the Certification of Grants and Returns 2012/13 be noted.

97. EXTERNAL AUDIT PLAN 2013/14

Darren Gilbert, KPMG presented the External Audit Plan 2013/14 which described how KPMG would deliver their financial statement audit work for the City Council. It also set out KPMG's approach to value for money work for 2013/14.

Mr. Gilbert advised that the interim audit was underway. The initial risk assessment for the financial statements audit had been completed which identified areas that would require particular attention during the audit. In addition KPMG had identified that they would need to focus on subsidiaries and joint ventures, namely Gloucester

City Homes Ltd and Gloucestershire Airport Ltd. The audit of financial statements would be undertaken in the summer.

The VFM audit would focus on three areas with particular attention to contract monitoring, savings plans and budgetary control. The Chair commented that he was pleased this would be reviewed as these areas had been mentioned in the peer review report.

Members were pleased to note that planned fee for the 2013/14 audit illustrated a reduction from that set out in the Audit Fee Letter 2013/14 issued in June 2013. It was recognised that the Council had made positive improvements during the last 18 months.

Mr Gilbert advised that KPMG would present any significant findings arising from the interim work to the Committee in June 2014.

RESOLVED that the External Audit Plan 2011/12 be approved.

98. BUDGET MONITORING - MONTH 9

The Committee considered a report by the Corporate Director of Resources which summarised the expected year end position, for the period April 2013 to March 2014, for the Council against budgeted income and expenditure as a result of analysis of the position at the end of December 2013.

The Management Accountant advised that the report had been produced in hybrid format and structured to give Members a summary of the financial position for each of the three directorates, which was then detailed into service areas. The forecast year end variances and outturn position are based upon best estimates at the time of production.

The current year end estimate for the Council as a whole is to be overspent against budgets by £24,000.00.

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The Committee noted the vast improvement which had been made. The report was easy to read and informative. Following one of the findings of the peer review report, the Committee believed it was important to distribute this information to other Members.

The Corporate Director of Resources said he would circulate the information to all Members and advise them that some of the issues raised in the peer review report had been addressed.

In response to a question from Councillor McLellan relating to Marketing Gloucester, the Management Accountant explained that this was a separate organisation and that the City Council had made an additional financial contribution of £28,000.00 than the budget set at the start of the year.

The Management Accountant advised that Financial Services were continuing to work with Service Managers relating to issues around maximising income budget.

RESOLVED that the report be noted.

99. TREASURY MANAGEMENT UPDATE - QUARTER 3 REPORT 2013/14

The Committee considered a report by the Corporate Director of Resources fulfilling one of the requirements of the revised Code of Practice for Treasury Management in November 2011 which recommends that Members should be updated on treasury management activities at least twice a year, but preferably quarterly. The report covered Quarter 3 from 1 October 2013 to 31 December 2013.

The report highlighted issues specific to the Council and also highlighted the overall economic outlook as provided by the Council's treasury advisors, Capita Asset Services.

The Management Accountant advised that the Council continued to be in line with indicators. Interest rates have continued at historically low levels and have fallen further during the quarter as a result of the Funding for Lending Scheme. Investment performance for the quarter ended on 31 December 2013. No borrowing was undertaken during this period.

The Council's budgeted investment return for 2013/14 was £45,770 and performance for the year to date is in line with the budget. The 25 year PWLB target rate for new long term borrowing for the quarter remained at 4.40%.

The Management Accountant commented that the Council were well within the limits for external debts and were meeting targets. The Council had not undertaken any new borrowing as this was not financially viable at this time. Detailed information had been incorporated in Appendix 3 and 4 of the report.

The Committee found the report helpful and informative and believed the information contained in Appendix 3 was not essential.

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The Corporate Director of Resources confirmed that a Treasury Management Training Event had been arranged to take place before the Audit and Governance Committee on 26 June 2014.

RESOLVED that the report be noted and that no changes are required to the prudential indicators.

100. TREASURY MANAGEMENT STRATEGY 2014/15

The Committee considered the report of the Corporate Director of Resources which recommended that Full Council formally approve the Treasury Management Strategy, the Prudential Indicators and note the treasury activities.

The Management Accountant advised that the Council continued to move to an under borrowing position. As at 31 March 2013 over-borrowing had reduced to £0.2M and the forecast position at 31 March 2014 was £4.596M under borrowing.

The Management Accountant drew Members' attention to Appendix 1 which set out the Council's capital expenditure for this year and future planned expenditure.

The Committee recognised that the report was technical and thanked the Management Accountant for explaining the content that was easy to undertaken. They believed reports should be presented in this manner.

RESOLVED that the Treasury Management Strategy and the treasury implications of the potential CoCo be noted.

101. INTERNAL AUDIT PLAN - 2013/14 MONITORING REPORT

The Committee considered the report of the Audit, Risk and Assurance Manager which informed Members of the audits completed as part of the approved Internal Audit Plan 2013/14.

The report included details of the audits completed during the period November 2013 to February 2014. It was anticipated that a target of 90% completion of the Annual Plan would be achieved by the end of the year, subject to no further unplanned work being undertaken.

The Audit, Risk and Assurance Manager referred to the follow up to audit carried out to test that the agreed audit recommendations relating to the Markets audit had been implemented by the agreed date. Details of the Rank 1 'High Priority' recommendations that had not been implemented had been provided in Appendix B. The Audit, Risk and Assurance Manager stated the Asset Management Team was aiming to complete the actions by 31 March 2014.

The Committee noted that most of the audits completed as detailed in Appendix A had received a split level of assurance.

In response to a question from the Chair regarding the Social Media Policy audit, the Audit, Risk and Assurance Manager explained that there could be a reputational risk to the Council through the misuse of social media. He commented that

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passwords had not been changed for a number of years and therefore members of staff who had left the Authority could still have access to the Council's social media accounts.

The Committee was advised that the audit recommendation relating to the BT&T Business Continuity Plan concerning the lack of emergency arrangements was being addressed. Servers had been installed in North Warehouse which replicated those in HKP Warehouse. Councillor Llewellyn commented on the close proximity. The Corporate Director of Resources advised that he was looking at three further potential locations.

In relation to the procurement audit, the Head of Legal and Policy Development advised that the Contract Procedure Rules would need to be amended within the Council's Constitution. Given that the EU Procurement Rules was anticipated to come into effect in 2014/15, it was proposed to make these changes at the same time.

RESOLVED that the audit work undertaken to date, and the assurance given on the adequacy of internal controls operating in the systems audited be endorsed.

102. INTERNAL AUDIT PLAN 2014/15

The Audit, Risk and Assurance Manager presented the Internal Audit Plan 2014/15 and referred to Appendix A which detailed audits planned for next year. He advised that these had been discussed and agreed with the Senior Management Team (SMT).

In response to a question from the Chair, the Audit, Risk and Assurance Manager advised that the Returning Officer had requested that an audit be undertaken to review all claims relating to Elections.

Councillor McLellan queried why it would take 10 days to review Members Expenses. The Audit, Risk and Assurance Manager advised that this was an estimate and that the number would be reviewed when the scope of audit is agreed.

RESOLVED that the Internal Audit Plan 2014/15 as detailed in Appendix A be approved.

103. UPDATE ON PEER REVIEW

The Corporate Director of Resources said the Chief Executive had apologised that he was unable to attend the meeting.

He referred to the report undertaken by the Peer Review Team. The report did not have an action plan but a comprehensible approach had been undertaken with clear recommendations for the Council to follow.

The Corporate Director of Resources advised that the Council would need to establish an action plan to develop and any updates would be presented to this

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Committee. He added that some of the recommendations mentioned earlier in the meeting had been implemented.

RESOLVED that the report be noted.

104. REVIEW OF TERMS OF REFERENCE FOR THE AUDIT AND GOVERNANCE COMMITTEE

The Committee considered the report of the Head of Legal and Policy Development relating to the updated Terms of Reference for the Committee for adoption by the Council.

Following the Committee meeting on 25 November 2013, a Working Group was set up to consider the Terms of Reference for the Committee. The Working Group met on 6 March 2014 and considered the table shown at Appendix 1, which included the CIPFA suggested Terms of Reference. The Working Group had recommended that the suggested Terms of Reference shown at Appendix 2 be recommended for adoption.

The Head of Legal and Policy Development pointed out that the CIPFA guidance did not suggest Terms of Reference in relation to the Committee's standards responsibilities.

RESOLVED TO RECOMMEND to the Constitutional and Electoral Working Group and Council that the Terms of Reference at Appendix 2 be approved.

105. REVIEW OF FREQUENCY OF AUDIT AND GOVERNANCE COMMITTEE MEETINGS

The Committee considered the report of the Audit, Risk and Assurance Manager relating to the frequency of Audit and Governance Committee meetings and to make recommendations on meeting frequency for adoption by the Council.

At its meeting on 6 March 2014, the Working Group considered the frequency of committee meetings and the list of standard and regular reports presented to Committee, as detailed in Appendix 1 of this report. The Working Group had requested a revised format as detailed in Appendix 2 of this report, which was being recommended for adoption.

In order to balance items on each agenda, it was proposed to move the December meeting to November and hold an additional meeting in January 2015.

The Vice Chair raised concerns that training requirements had not been taken into account. Some training was more thorough and it is not always practical for it to be arranged before a Committee meeting. Some Members also found it difficult to attend a Committee meeting earlier. The Vice Chair believed that dedicated days should be allocated for training, which could also be opened to all Members.

The Head of Legal and Policy Development advised that a Member Development Programme was to be presented to the Constitutional and Electoral Working Group which would identify training dates.

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RESOLVED TO RECOMMEND to Constitutional and Electoral Working Group and Council that the frequency of meetings for the Audit and Governance Committee at Appendix 2 be approved.

106. AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME

Members considered the proposed work programme for the Audit and Governance Committee.

The Vice Chair commented that item 15, the Annual Report of the Audit Committee, was not presented to Committee last year.

The Audit, Risk and Assurance Manager advised that it was good practice to present a report and would be guided by the Committee. Members agreed a report should be presented to the next meeting.

RESOLVED that the Work Programme be noted.

107. DATE OF NEXT MEETING

Thursday, 26 June 2014 at 6.45pm.

Time of commencement: 18:30 hours
Time of conclusion: 20:20 hours

Chair

BRIEFING NOTE FOR AUDIT & GOVERNANCE COMMITTEE – 26 JUNE 2014

GL1 Leisure Centre Combined Heat & Power (CHP)

By way of brief background information, the following information has been gathered from files and various emails sent to and from individuals involved in the project. It is not an exhaustive list, nor is it necessarily a true reflection on activity or the priorities that may or may not have been adopted at the time it was recorded.

It is not easy to unravel the issues that arose, before and after installation. There has been a number of Gloucester City Council employees involved in the project, from inception to present day. None of the officers that procured the works, or had a hand in the process, are still employed by the City.

I was made aware that there could be operational issues with the CHP at GL1 soon after starting by employment in Aug 2012. At this time the matter was being dealt with by Senior Building Surveyor John Slaney who left the council in February 2013.

We have no Mechanical and Electrical expertise in the Asset Management Team. It was therefore decided that we take a step by step approach to resolving issues, procuring services of experts as required. As is often the case with such matters, this takes more time than relying on in house advice. On a positive note, having repaired and re-commissioned the 3rd boiler in the plant room and then implemented the recommended adjustments to the CHP we seem to have made significant progress. We will be able to measure the outcomes once we have a data set covering a greater like for like time period.

August 2006

Report on file from Congenco providing initial advice on installation and specification of CHP. Includes quote for the works and ongoing annual maintenance charges.

October 2006

Various emails regarding gas pressure available on site and pressure required for optimum performance of the CHP. Indicates that site pressure is 19mb and optimum operating pressure required is 20mb

May 2007

Meeting notes seeking including projected project start date of July 2007

October 2007

Emails from Chris Dobson of GCC to Congenco advising that gas pressure would only allow for 85% full load.

Sept 2008

Martin Skerritt emailed Ian Bragg cc Viv Lean and Steve Tonks outlining achieved savings of circa £15,000 over a 7 month period. Suggests this is only 50% of projected savings. There is a response from Ian Bragg with recommendations to ensure optimum efficiency. Unknown whether these measures were undertaken.

July 2010

Email from Godfrey Tarling to Peter Monahan requesting an increase in gas pressure as CHP unit not functioning correctly.

December 2012 – November 2013

A series of works are undertaken to ensure that the plant at GL1 is functioning as designed.

Brian Duncan (Clerk of Works for City Council) site inspection of plant room advises that one of the three boilers in GL1 plant room has been dismantled. Investigative work undertaken, it transpires that the boiler was stripped in 2008 as required repair. Quotes are sought to reinstate.

Works are undertaken to the CHP to re-route the flue as exhaust gases are entering the Air Handling Unit.

December 2013 – March 2014

Informal investigative works were undertaken by Mechanical and Electrical (M&E) Surveyor, Doug Wheeler. Doug had been appointed by the City Council to oversee the procurement of the AHU works early in 2013. During a site visit Doug noted that the CHP did not appear to be running correctly.

A meeting was arranged between City Council and Aspire to discuss the probable causes of the plant “dumping” heat which resulted in excess energy consumption and inefficient operation of the plant.

The M&E Surveyor believed that the issues could be solved by undertaking some relatively straightforward adjustments to the temperature flow and return settings via the Building Management System (BMS). It was agreed that a report would be commissioned jointly by Aspire and GCC to further understand the issue. In order to demonstrate a collaborative approach, GCC agreed the joint commission was to be awarded to Aspire’s chosen specialist contractor Tim Linford of TJL Associates. Tim was made aware of Doug Wheeler’s suggestions prior to visiting site.

March 2014

Commissioned report by JTL Associates is received. In broad terms, Tim’s findings largely concurred with Doug Wheeler’s initial advice. Tim’s report made a number of recommendations to look at varying the temperature controls via the CHP’s remote monitoring system. Some comfort was taken from both experts agreeing a similar remedy.

3rd boiler re-commissioned after lengthy wait for parts to be shipped from Italy.

April 2014

Aspire’s in house operative Paul Dewsbury arranged with the plant manufacturer Congenco to implement the recommended changes.

April 2014 – present

We are currently in the process of monitoring the impact on energy consumption, a joint exercise between Aspire and GCC. Initial assessment is positive and the CHP appears to be working considerably more efficiently than previously. We will have a clearer picture once more comparable data is collected. We anticipate there may be further tweaks to the system over the coming 6-12 months in order to optimise performance in line with seasonal temperature swings.

Richard Webb, Asset Manager

AUDIT AND GOVERNANCE COMMITTEE – 26 JUNE 2014

ACTION PLAN

MINUTE NO.	MATTER	CURRENT STATUS	RAG	TARGET DATE	OWNER
<u>Actions arising from meeting held on 24 September 2012:</u>					
17	Combined Heat and Power installation at GL1.	Included in action 23 from meeting of 24 June 2013.	R	31.03.14	RW
		<p><u>Minute 23 – Meeting on 24 June 2013</u></p> <p>Following investigative works it has been identified that the CHP plant at GL1 is not functioning correctly. In order to resolve this matter, officers will be employing the services of a third party expert (quotes are currently being sought) to identify what measures can be taken to improve the installation. We would anticipate that survey work will be completed by the end of November. Allowing for due process, procurement procedures and subject to budgetary provision, we believe that remediation/improvement works will be undertaken first quarter 2014.</p>	R	31.03.14	RW
		<p><u>Minute 95 – Meeting on 17 March 2014</u></p> <p>The Asset Manager to provide the Committee with an update on progress and a chronology of events.</p>	R	26.06.14	PG/RW
17	Purchase of software with a modern stock control facility at The Guildhall.	The stock control facility is part of a broader system requirement for the Guildhall operations. A new Manager has now been appointed at the Guildhall, who will review existing processes and systems and develop a business case for a new system as required. This will include stock control functionality.	A	31.03.14	SG

MINUTE NO.	MATTER	CURRENT STATUS	RAG	TARGET DATE	OWNER
21	Internal Audit Plan 2012/13 – Fixed Asset Register to be in place.	Detailed spreadsheet in place. Currently evaluating a system linked to the financial ledger. Financial System upgrade to be completed December 2013. Once upgrade completed successfully project will commence for asset register transfer to ledger.	G	Priority	JT
<u>Actions arising from meeting held on 26 November 2012:</u>					
35	Business Rates Pooling – annual report to be presented to the Committee.	This item was added to the agenda for the Audit & Governance Committee on 26 June 2014. However, the necessary information will not be available in time for this meeting so the item has been added to the agenda for the Audit and Governance Committee on 8 September 2014.	G	26.06.14 08.09.14 (revised date)	JT
<u>Actions arising from meeting held on 17 March 2014:</u>					
98	Budget Monitoring – Month 9. Corporate Director of Resources to advise all Members that some of the issues raised in the peer review report had been addressed.	Complete. Briefings on progress made to inform Members of the financial planning processes have been sent.	G	31.03.14	PG
106	Audit & Governance Work Programme – Annual Report of the Audit Committee to be presented at next meeting.	This item has been added to the agenda for the Audit & Governance Committee on 26 June 2014.	Action Complete	26.06.14	TR

PLEASE NOTE: Rolling agenda items requested by the Committee have not been included above but have been included on the Audit and Governance Work Programme.



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Interim Audit Report 2013/14

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Gloucester City Council
June 2014



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.audit-commission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Darren Gilbert, the appointed engagement lead to the

Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

This document summarises the key findings arising from our work to date in relation to both the audit of the Authority's 2013/14 financial statements and the 2013/14 VFM conclusion.

Scope of this report

This report summarises the key findings arising from:

- our interim audit work at Gloucester City Council (the Authority) in relation to the 2013/14 financial statements; and
- our work to support our 2013/14 value for money (VFM) conclusion up to May 2014.

Financial statements

Our *External Audit Plan 2013/14*, presented to you in March 2014, set out the four stages of our financial statements audit process.



During March to May 2014 we completed our planning and control evaluation work. This covered our:

- review of the Authority's general control environment, including the Authority's IT systems;
- testing of certain controls over the Authority's key financial systems with the help of internal audit;
- assessment of the internal audit function; and
- review of the closedown process and progress in implementing prior year recommendations.

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed some early work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority, other inspectorates and review agencies in relation to these risk areas; and
- identifying what additional risk-based work we will need to complete.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our interim audit work in relation to the 2013/14 financial statements.
- Section 4 provides an overview of our VFM approach and sets out our findings from our interim audit work in relation to key VFM conclusion risks.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. The remainder of this report provides further details on each area.

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Organisational control environment	<p>We have carried out an assessment of the Council's overall control environment, which is a key factor in determining the external audit strategy.</p> <p>We consider that the Authority's organisational controls are effective overall.</p>
Controls over key financial systems	<p>The controls over the financial systems upon which we rely are generally sound, but Internal Audit have identified some issues through their work which will impact on our audit approach.</p> <p>We have not repeated any recommendations raised by Internal Audit in this report.</p>
Review of internal audit	<p>We are pleased to report that we are again able to place full reliance on Internal Audit's work on the key financial systems.</p>
Accounts production and specific risk areas	<p>In previous audits we have reported the need for significant improvements to the Authority's financial reporting and closedown procedures. The Authority has an understanding of the specific risk areas and is making progress in addressing them. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.</p> <p>We have not identified any further risks in addition to those communicated to you through our <i>External Audit Plan 2013/14</i>.</p>
Group Audit plan	<p>During our interim visit, we have revisited our approach to auditing the group based on an assessment of the impact each significant component has on the group accounts. From a materiality and efficiency perspective, we consider it more appropriate to perform specific audit procedures ourselves for significant account balances for both Gloucester City Homes Ltd and Gloucestershire Airport Ltd.</p> <p>We do not therefore plan to place reliance upon the work of Baker Tilly and Hazlewoods as the external auditors of Gloucester City Homes Ltd and Gloucestershire Airport Ltd respectively.</p>
VFM risks	<p>We have identified a number of specific VFM risks. In most cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.</p> <p>We will carry out additional risk-based work on a small number of residual risks.</p>
Other matters	<p>Following the recent departure of the Chief Executive and the announcement that the Corporate Director of Resources will also be leaving the Authority, the Council will need to consider and manage the impact on senior management capacity. The Council has already appointed officers to the posts of Electoral Registration Officer, Returning Officer and Section 151 Officer to ensure all statutory responsibilities are discharged.</p>

Your organisational control environment is effective overall.

Following the departures of the Chief Executive and Corporate Director of resources, the Council will need to consider and manage the impact on senior management capacity.

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Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority’s overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

In completing this work, we can partially rely on internal audit’s reviews. This has been complemented by our own re-performance of a sample of internal audit’s testing.

Key findings

Overall, we consider that your organisational controls are effective.

Other matters

We are aware that the Corporate Director of Resources will shortly be leaving the Council to take up a post elsewhere. This will leave the Council with only one Corporate Director, following the recent departure of the Chief Executive. The Council will need to consider and manage the impact on senior management capacity, both in the short and long term. Appointments have already been made to the posts of Electoral Registration Officer, Returning Officer and Section 151 Officer to ensure all statutory responsibilities are discharged.

Aspect	Assessment
Organisational controls:	
Management’s philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3

- Key:
- 1 Significant gaps in the control environment.
 - 2 Deficiencies in respect of individual controls.
 - 3 Generally sound control environment.

We were able to place reliance on internal audit's work on the key financial systems.

Review of internal audit

The scope of the work of your internal auditors and their findings inform our audit risk assessment.

We work with your internal auditors to assess the control framework for certain key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place full reliance on their work.

Where we intend to rely on internal audit's work in respect of the Authority's key financial systems, auditing standards require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

We reviewed internal audit's work on the key financial systems and re-performed a sample of tests completed by them.

Key findings

We did not identify any significant issues with internal audit's work and are pleased to report that we are again able to place full reliance on their work on the key financial systems.

In our opinion Internal Audit's files contained appropriate evidence to support the conclusions reached; reports are clear and easy to follow; and there is clear evidence of management review of work completed.

Public Sector Internal Audit Standards

From April 2013, the United Kingdom Public Sector Internal Audit Standards (PSIAS) apply across the whole of the public sector, including local government. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. The PSIAS replace the *Code of Practice for Internal Audit in Local Government*. Additional guidance for local authorities is included in the *Local Government Application Note* on the PSIAS.

Internal Audit are planning to complete a self-assessment against the standards and are required to get an independent review of the service once in every five year period.

Our review of Internal Audit has not included an assessment of the Internal Audit function against the PSIAS.

The controls over the financial systems upon which we rely are generally sound, but Internal Audit have identified some issues through their work which will impact on our audit approach.

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Controls over key financial systems

We review the outcome of internal audit’s work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

We also work with your internal auditors to update our understanding of some of the Authority’s key financial processes where these are relevant to our final accounts audit.

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with the internal auditors’ opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

The table below sets out the key financial systems and Internal Audit reports on which we seek to place reliance. The issues arising are the specific findings and control weaknesses that Internal Audit have identified which have a direct impact on our audit and the work we intend to carry out.

Financial systems	Issues arising	Impact on the audit
General ledger	Weaknesses identified around segregation between posting and authorising journals.	More substantive approach to journal testing to be undertaken, focusing on those journals that have been posted and authorised by the same person.
Budget monitoring	Progress has been made to improve the budget monitoring process, but this has not operated for the full year. There was a difference of £117k between the budget loaded onto the general ledger in March 2013 and the net budget requirement agreed by the Full Council. Management investigated and resolved this difference during the year.	We will review the year end outturn report to identify the reported position against budget.
Cash	No significant control deficiencies identified.	No impact on audit approach.
Treasury management	No significant control deficiencies identified.	No impact on audit approach.
Capital accounting	The completion and independent review of the monthly asset register/general ledger reconciliation should be evidenced.	We will reconcile the figures reported as at 31 March in the asset register and the general ledger as part of our audit.
Payroll	No significant control deficiencies identified.	No impact on audit approach.

The controls over the financial systems upon which we rely are generally sound, but Internal Audit have identified some issues through their work which will impact on our audit approach.

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This year our audit approach has been amended so that we have not defined payroll, non payroll expenditure and benefits expenditure as systems requiring detailed controls testing, as a result of the low risk of material misstatement occurring. This assessment is on the basis that there is a high volume of low value transactions, with a low level of complexity and with a low level of judgement involved in the transactions, as well as good coverage by internal audit. In addition, we complete detailed testing on the benefits expenditure during the Housing Benefit grant claim audit later in the year, so we will utilise these findings and not duplicate audit effort during the interim audit visit.

Detailed audit work will be completed during the final audit visit which will focus on substantive analytical procedures. If issues are identified with these tests then further work will be completed.

Key findings

Based on the work of your internal auditors, the controls over the financial systems upon which we rely are sound.

Internal audit included recommendations in their reports as appropriate and we have not duplicated their recommendations in this report.

Controls over other financial systems

We have also reviewed internal audit reports where, although we do not place reliance upon the work, we inspect the findings as part of our wider consideration of the control environment in operation. These reports include Council tax, National Non-Domestic Rates and Sundry Debtors.

No issues or additional risks relating to the overall control environment were identified from our review of these files.

The Authority has taken steps to improve its process for the preparation of its financial statements, but this remains an area requiring close monitoring to ensure the anticipated improvements are delivered.

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2012/13*.

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Work completed

We issued our Accounts Audit Protocol to the Head of Financial Services on 10 March 2014. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. We discussed our requirements in detail in a meeting on the same date.

As part of our interim work we specifically reviewed Internal Audit’s review on the Authority’s progress in addressing the recommendations in our *ISA 260 Report 2012/13*.

Key findings

The Authority has incorporated a number of measures into its closedown plan to further improve the project management of this complex process.

We consider that the overall process for the preparation of your financial statements is adequate. The areas which you need to pay particular attention to are:

- capital accounting. This is a critical area to get right and where material adjustments have previously been identified.
- year end reconciliations, e.g. between the general ledger and the Benefits system. This has historically been a complex area and resulted in significant audit adjustments.

The Authority has implemented the majority of the recommendations in our *ISA 260 Report 2012/13* relating to the financial statements in line with the timescales of the action plan. The table below sets out the Authority’s progress against high priority recommendations that have not been fully implemented.

Issue	Progress
<p>Budget monitoring should be completed on a monthly basis. The summary reports presented to Cabinet should reconcile to the detailed monitoring reports produced by Finance.</p>	<p>This recommendation is in progress but Internal Audit testing indicates that further progress is required to ensure that adequate controls are applied consistently.</p> <p>The Council has been developing its approach to budget monitoring throughout the year and an improved process is in place. Management Accounts were produced from Period 2 to Period 12 in 2013/14, and were presented at Gloucester Leadership Team meetings by the Finance Change Manager and the Head Of Finance. However, Internal Audit identified that budget monitoring reporting at a service level or cost centre manager level has not been completed regularly or consistently within 2013/14. Finance are in the process of reviewing the most appropriate method to complete budget monitoring at a service level.</p> <p>Budget monitoring reporting to Members has improved and is now completed on a quarterly basis.</p> <p>Internal Audit identified that there was an unexplained difference of £117k between the budget loaded onto the general ledger in March 2013 and the net budget requirement agreed by the Full Council, which represents 0.7% of the agreed net budget requirement. Management investigated and resolved this difference during the year.</p>

The Authority has an understanding of the key risk areas we identified and is making progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Work completed

In our *External Audit Plan 2013/14*, presented to you in March, we identified the key risks affecting the Authority's 2013/14 financial statements.


Our audit strategy and plan remain flexible as risks and issues change throughout the year. To date there have been no changes to the risks previously communicated to you.

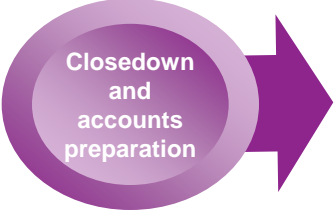

We have been discussing these risks with the Corporate Director of Resources and the Head of Financial Management as part of our regular meetings. In addition, we sought to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Key findings

The Authority has a clear understanding of the risks and making progress in addressing them. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

The table below provides a summary of the work the Authority has completed to date to address these risks.

Key audit risk	Issue	Progress
	Recent audits have highlighted weaknesses in the accounting for fixed assets and there is therefore a risk around the completeness and accuracy of data.	<p>Internal Audit have carried out a review of Capital Accounting in 2013/14. We have reviewed the work of Internal Audit and are able to place reliance on their work in this area. No significant control weaknesses have been identified which would impact on our audit approach for 2013/14 and all prior year recommendations have been implemented.</p> <p>The Council are in the process of implementing a new fixed asset register. This will be in place for the 2014/15 financial year.</p>

Key audit risk	Issue	Progress
	<p>The Council has made good progress in the last two years to improve the quality of accounts presented for audit, but there has historically been a large number of adjustments made between the draft and final versions of the accounts and there remains a need to demonstrate significant improvement in these arrangements. The Council needs to continue this direction of travel and ensure it produces a good quality set of draft financial statements for audit.</p>	<p>We have reviewed the Council's arrangements closing down the ledger and preparing the financial statements and are satisfied that the planned arrangements in place are sufficient and appropriate.</p> <p>We have discussed the closedown progress to date with the Finance team and have not identified any significant risks to the preparations of the financial statements.</p>
	<p>During the year, the Gloucestershire County Council Pension Fund has undergone a triennial valuation. The pension cost and net liability figures for the Authority to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.</p>	<p>We have reviewed the process that the Council has put in place to ensure that information provided to the actuary is complete and accurate and have not identified any issues.</p> <p>We will complete specific testing over the pension cost and net liability figures during our final accounts visit.</p>

We will not seek to place reliance on the work of the auditors of Gloucester City Homes Ltd and Gloucestershire Airport Ltd to support our audit of the Authority's group accounts. Instead we will perform specific audit procedures ourselves.

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Group audit

In our *External Audit Plan 2013/14* we communicated that, in addition to the Authority, we anticipated the following subsidiaries and joint ventures to be significant in the context of the group audit:

- Gloucester City Homes Ltd; and
- Gloucestershire Airport Ltd.

During our interim visit, we have revisited our approach to auditing the group based on an assessment of the impact each significant component has on the group accounts.

Gloucester City Homes

On consolidation, the material balances consolidated are the expenditure, income, debtor and creditors. As part of the consolidation process, the majority of these balances are eliminated to reflect the inter-company trading between the Council and Gloucester City Homes. The net impact on the group accounts is therefore immaterial.

Gloucestershire Airport Ltd

The impact upon the Group accounts is to recognise the investment in the joint venture rather than the cost of the shares held on the Gloucestershire Airport Ltd balance sheet.

The movement in the year on the joint venture investment recognised would be due to the profit or loss made by the Airport and any land valuation changes. Gloucestershire Airport Ltd has historically made low profits. We will therefore perform a desktop review of the financial results for 2013/14 and the land valuation as these would drive any change in the consolidated group accounts.

We therefore do not plan to place reliance upon the work of Baker Tilly and Hazlewoods as the external auditors of Gloucester City Homes Ltd and Gloucestershire Airport Ltd respectively.

Instead we will perform specific audit procedures for significant account balances for both Gloucester City Homes Ltd and Gloucestershire Airport Ltd.

VFM audit approach

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

Our External Audit Plan 2013/14 describes in more detail how the VFM audit approach operates.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority’s financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year’s VFM audit. We then assess if more detailed audit work is required in specific areas. The Audit Commission has developed a range of audit tools and review guides which we can draw upon where relevant.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Specific VFM risks

We have identified a number of specific VFM risks.

In most cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We will carry out additional risk-based work in the following area:

- Contract monitoring
- Savings plans
- Budgetary control

Work completed


In line with the risk-based approach set out on the previous page, we have



- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- considered the results of relevant work by the Authority, other inspectorates and review agencies in relation to these risk areas; and
- concluded to what extent we need to carry out additional risk-based work.

Key findings

Below we set out our preliminary findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion,

We will report our final conclusions in our *ISA 260 Report 2012/13*.

Key VFM risk	Risk description and link to VFM conclusion	Preliminary assessment
	<p>The Council has a number of contracts with third parties to provide services, such as neighbourhood services and IT.</p> <p>An Internal Audit review in 2012/13 identified that the Council had overpaid on one of its contracts.</p> <p>There is a risk that the Council is not carrying out effective contract monitoring to ensure that it pays the correct amount for services provided and that it obtains value for money from its contractors.</p> <p>This is relevant to the economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>The Council is undertaking a detailed review of one of its major outsourcing contracts. A formal report is due to be presented to the Corporate Director of Resources. We will review the output from this when it is available.</p>

Key VFM risk	Risk description and link to VFM conclusion	Preliminary assessment
	<p>The savings plan target for the Authority for 2013/14 is £1.9m. This was built into the budget agreed by the Council and Cabinet at the start of the year.</p> <p>There is a risk that savings plans are not being monitored and that the Authority does not make the required savings in order to meet its budget. This is relevant to the financial resilience criteria of the VFM conclusion.</p>	<p>The Council is in the process of updating the ledger to reflect the savings that have been agreed for each budget. The project plans have to be agreed by the Service Manager responsible for delivering the savings and will include a timeplan and actions taken in order for the savings to be delivered.</p> <p>However, progress has been made to improve the budget monitoring reports and overall process throughout the year and detailed monthly has been produced since month 9.</p> <p>As part of our final accounts audit visit, we will track the performance against the savings plans through to year end and review the final outturn position against the planned savings for the year.</p>
	<p>The Council took steps last year to address weaknesses relating to its budgetary control arrangements. This process has continued during the year. Robust budgetary control and monitoring is key to delivering value for money, so we will follow up the recommendations made in our 2012/13 <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>Internal Audit have completed a review over the Council's arrangements relating to Budgetary Control. We have reviewed the Internal Audit files and can place reliance on their work.</p> <p>Progress has been made to improve the budget monitoring reports and overall process throughout the year.</p> <p>However, the original 2013/14 budget within the general ledger did not fully agree to the net budget requirement set by Members. There was a difference of £117k between the budget loaded onto the general ledger in March 2013 and the net budget requirement agreed by the Full Council. Management investigated and resolved this difference during the year.</p> <p>We will revisit this area during our final accounts visit to consider the Authority's response to the issues identified.</p>



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Our ref

8 April 2014

Dear Peter

Annual audit fee 2014/15

I am writing to confirm the audit work and fee that we propose for the 2014/15 financial year at Gloucester City Council. Our proposals are based on the risk-based approach to audit planning as set out in the Code of Audit Practice and work mandated by the Audit Commission.

As we have not yet completed our audit for 2013/14 the audit planning process for 2014/15, including the risk assessment, will continue as the year progresses and fees will be reviewed and updated as necessary. We will naturally keep you informed.

The proposed indicative audit and certification fees for 2014/15 are shown below, along with a comparison to the prior year's audit. All fees are exclusive of VAT.

Audit area	Planned fee 2014/15	Planned fee 2013/14
Code of Audit Practice audit fee – Gloucester City Council	£115,000	£115,000
Certification of grant claims & returns	£9,390	£12,550

We are proposing to maintain the audit fee for 2014/15 at the same level as that planned for 2013/14. At this stage it is too early to assess whether the improvements identified previously have continued, whether the finance team will have implemented all the controls requested by us and internal audit, whether the quality of the working papers produced are to the required standard set out in our Audit Protocol and whether the draft accounts presented to us for audit will be satisfactory for the 2013/14 audit.

As a result we are proposing to maintain our audit fee for 2014/15 and re-assess this after the 2013/14 audit is complete. Due to this, our fee is not in line with the scale fee of £83,700

recommended by the Audit Commission. Due to the factors mentioned above, and the risk assessment we have undertaken, we are unable to make this reduction in the fee at this time.

The indicative fees are based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. Our assumptions are set out in more detail in Appendix 1 to this letter.

A more detailed audit plan will be issued later this year. This will detail the risks identified, planned audit procedures and (if required) any changes in fee. If we need to make any significant amendments to the audit fee during the course of the audit, I will first discuss this with you and then prepare a report for the Audit and Governance Committee, outlining the reasons why the fee needs to change.

DCLG and HM Treasury are working with grant-paying bodies to develop assurance arrangements for certifying claims and returns following the closure of the Commission. Subject to confirmation, we expect these new arrangements to apply to 2014/15 claims and returns and therefore the following schemes to fall outside the Commission's arrangements:

- Pooling of housing capital receipts (CFB06)

The Department for Work and Pensions (DWP) has asked the Audit Commission to prepare auditor guidance for the certification of housing benefit subsidy for 2014/15. We will therefore continue to certify the housing benefit subsidy claim under the Audit Commission's arrangements. The estimated indicative certification fee above therefore only covers this work. It is expected that arrangements for 2015/16 onwards will be made on the same basis by an independent private company to be set up by the Local Government Association, which will take on transitional responsibility for the management of the Audit Commission's audit contracts following its closure in March 2015.

We expect to issue a number of reports relating to our work over the course of the audit. These are listed at Appendix 2.

The proposed fee excludes any additional work we may agree to undertake at the request of Gloucester City Council. Any such piece of work will be separately discussed and a detailed project specification agreed with you.

The key members of our audit team for the 2014/15 audit are:

Name	Role	Contact details
Tara Westcott	Senior Manager	tara.westcott@kpmg.co.uk

		0117 905 4358
Duncan Laird	Manager	duncan.laird@kpmg.co.uk 0117 905 4253

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively, you may wish to contact KPMG's national contact partner for Audit Commission work, Trevor Rees (trevor.rees@kpmg.co.uk).

If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet '*Something to Complain About*', which is available from the Commission's website (www.audit-commission.gov.uk) or on request.

Yours sincerely



Darren Gilbert
Director

Appendix 1 – Audit fee assumptions

In setting the fee, I have assumed that:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2013/14;
- you will inform us of significant developments impacting on our audit;
- internal audit meets the appropriate professional standards;
- internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
- you will identify and implement any changes required under the CIPFA IFRS-based Code of Practice on local Authority Accounting within your 2014/15 financial statements;
- your financial statements will be made available for audit in line with the timetable we agree with you;
- good quality working papers and records will be provided to support the financial statements in line with our *prepared by client* request and by the date we agree with you;
- requested information will be provided within agreed timescales;
- prompt responses will be provided to draft reports;
- complete and accurate claims and returns are provided for certification, with supporting working papers, within agreed timeframes; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Improvements to the above factors may allow reductions to the audit fee in future years. Where these assumptions are not met, we will be required to undertake additional work and charge an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the detailed audit plan.

Any changes to our audit plan and fee will be agreed with you. Changes may be required if:

- new residual audit risks emerge;
- additional work is required by the Audit Commission, KPMG or other regulators; or
- additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Appendix 2: Planned outputs

Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit and Governance Committee.

Planned output	Indicative date
External audit plan	March 2015
Interim audit report	June 2015
Report to those charged with governance (ISA260 report)	September 2015
Auditor's report giving the opinion on the financial statements, value for money conclusion and audit certificate	September 2015
Opinion on Whole of Government Accounts return	September 2015
Annual audit letter	December 2015
Certification of grant claims and returns	February 2016



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Protecting the Public Purse Fraud Briefing

2013

Gloucester City Council

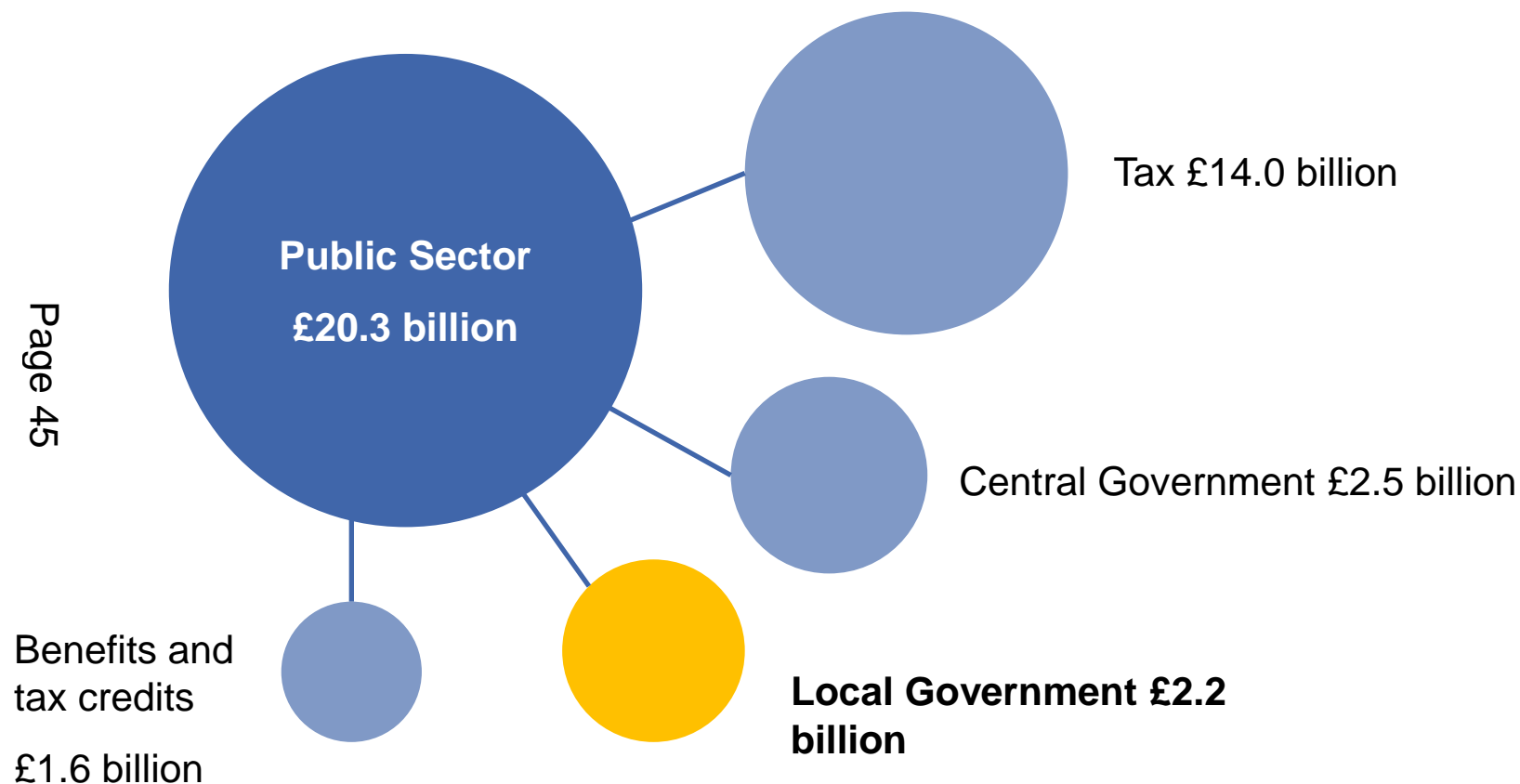
Agenda Item 11

- Introduction and purpose of your fraud briefing
- Protecting the Public Purse (PPP) 2013 report – national picture
- Interpreting fraud detection results
- The local picture
- Fraud drivers
- Questions
- KPMG resources

Introduction

Fraud in the public sector

Public Sector fraud costs the UK economy billions each year.



Source: National Fraud Authority:
Annual Fraud Indicator, March 2012

Introduction

Purpose of your fraud briefing

- Opportunity for councillors to consider fraud detection performance, compared to similar local authorities
- Reviews current counter fraud strategy and priorities
- Discuss local and national fraud risks
- Reflect local priorities in a proportionate response to those risks

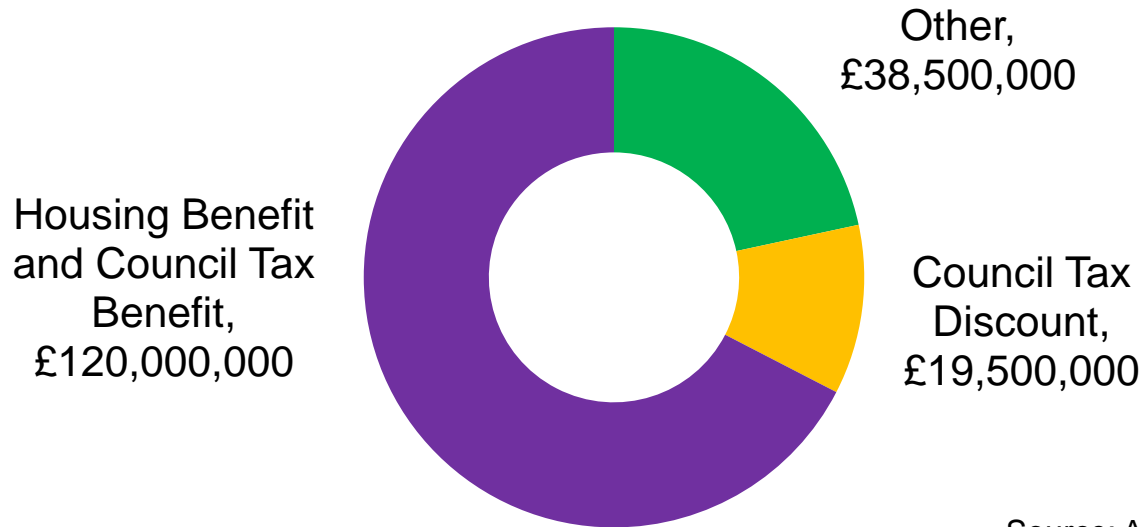
Your council is compared with other district councils in the south west and county area

107,000 total cases detected with value of £178m (excluding social housing fraud)

Nationally, the number of detected frauds has fallen by 14% since 2011/12 and the value by less than 1%

Detected Fraud

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Source: Audit Commission

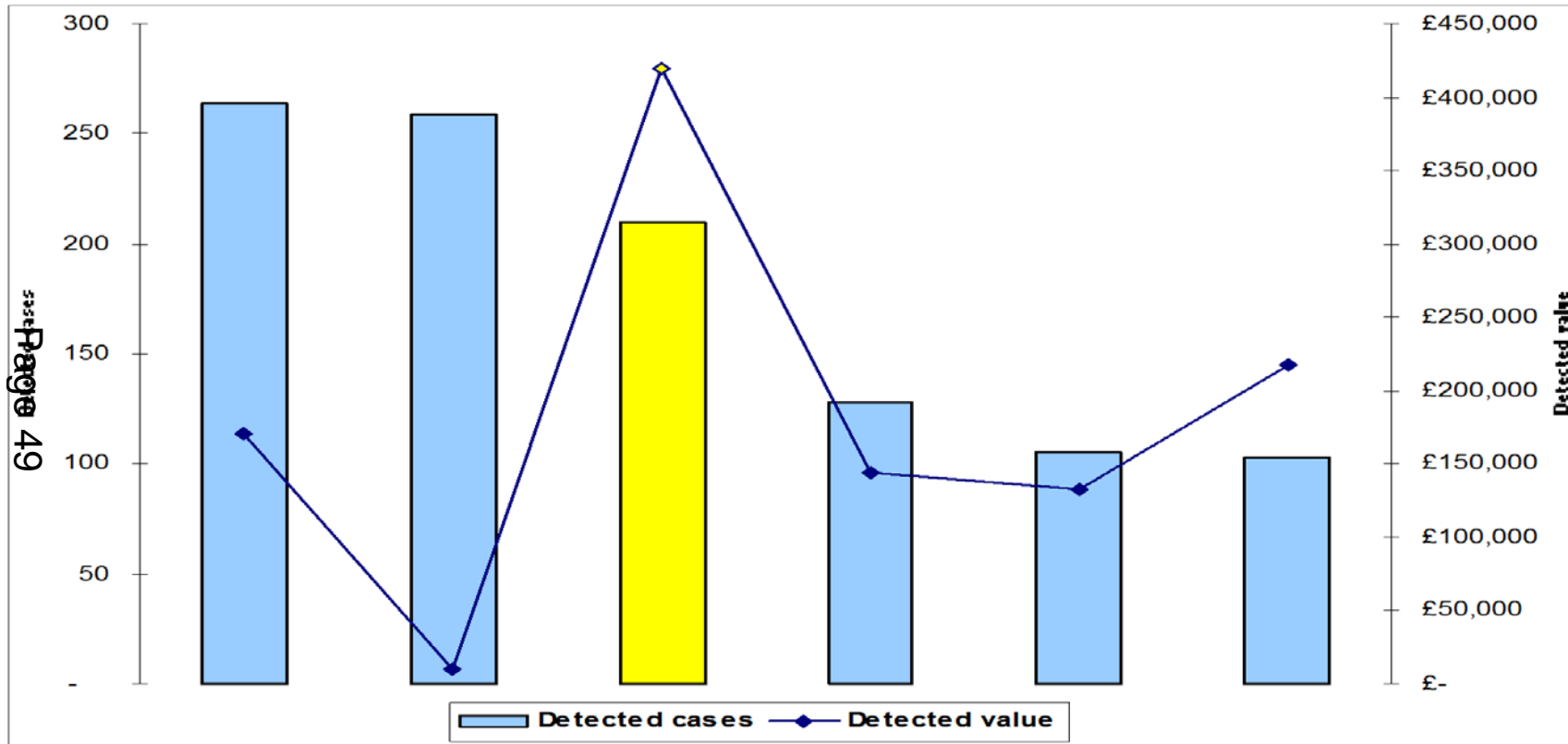
Interpreting fraud detection results

- Contextual and comparative information needed to interpret results
- Detected fraud is indicative, not definitive, of counter fraud performance (prevention and deterrence should not be overlooked)
- No fraud detected does not mean no fraud committed (fraud will always be attempted and even with the best prevention measures some will succeed)
- Council who look for fraud, and look in the right way, will find fraud (there is no such thing as a small fraud, just a fraud that has been detected early)

Your council is highlighted in yellow in the graphs that follow

The local picture

How your council compares to other district councils in your county area Total detected cases and value 2012/13



Gloucester detected: 210 cases, valued at £419,380

DC average for your county area: 178 cases, valued at £182,518

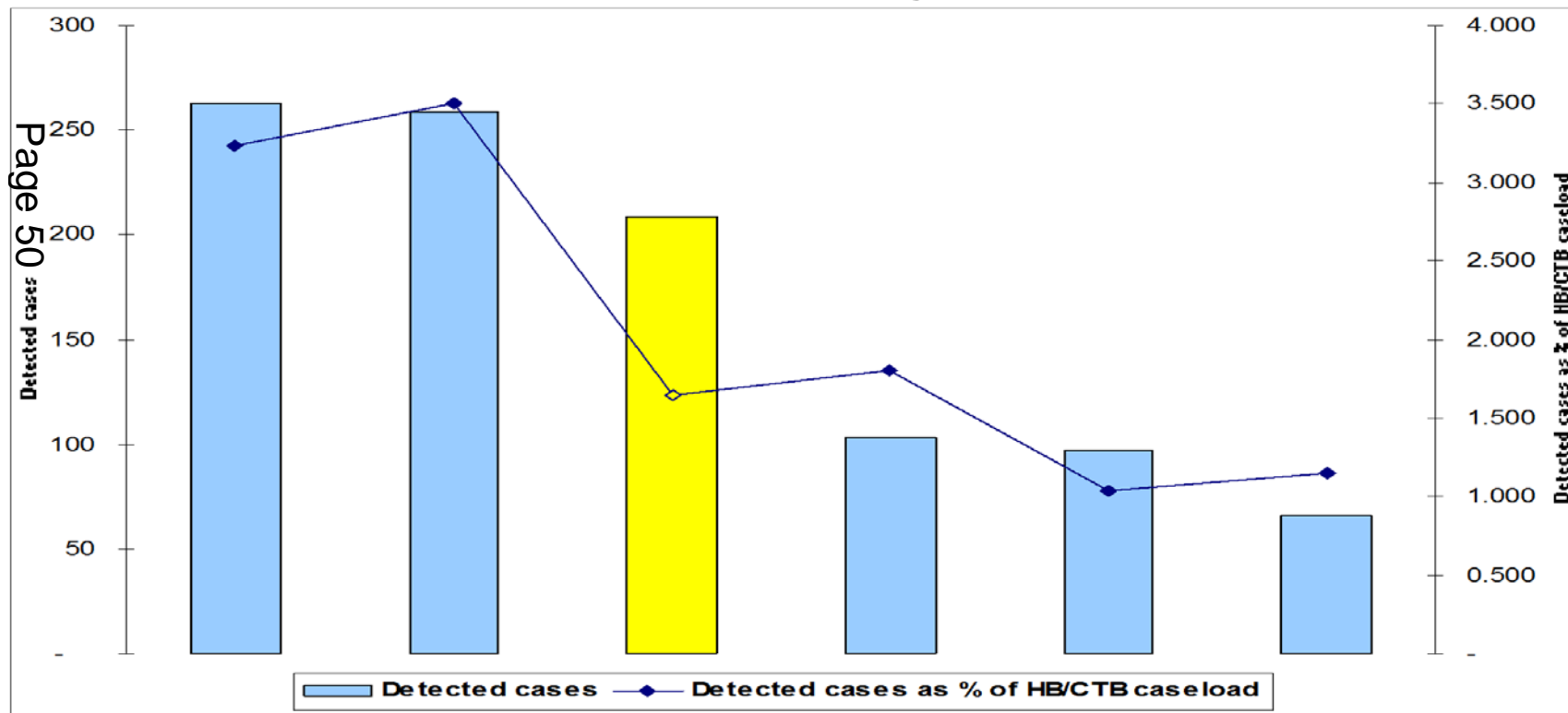
Source: Audit Commission

The local picture

District councils in your county area 2012/13

Housing benefit (HB) and Council tax benefit (CTB) fraud

Detected cases and detected cases as a percentage of HB/CTB caseload.



Gloucester detected: 209 cases, valued at £419,380

DC average for your county area: 166 cases, valued at £182,045

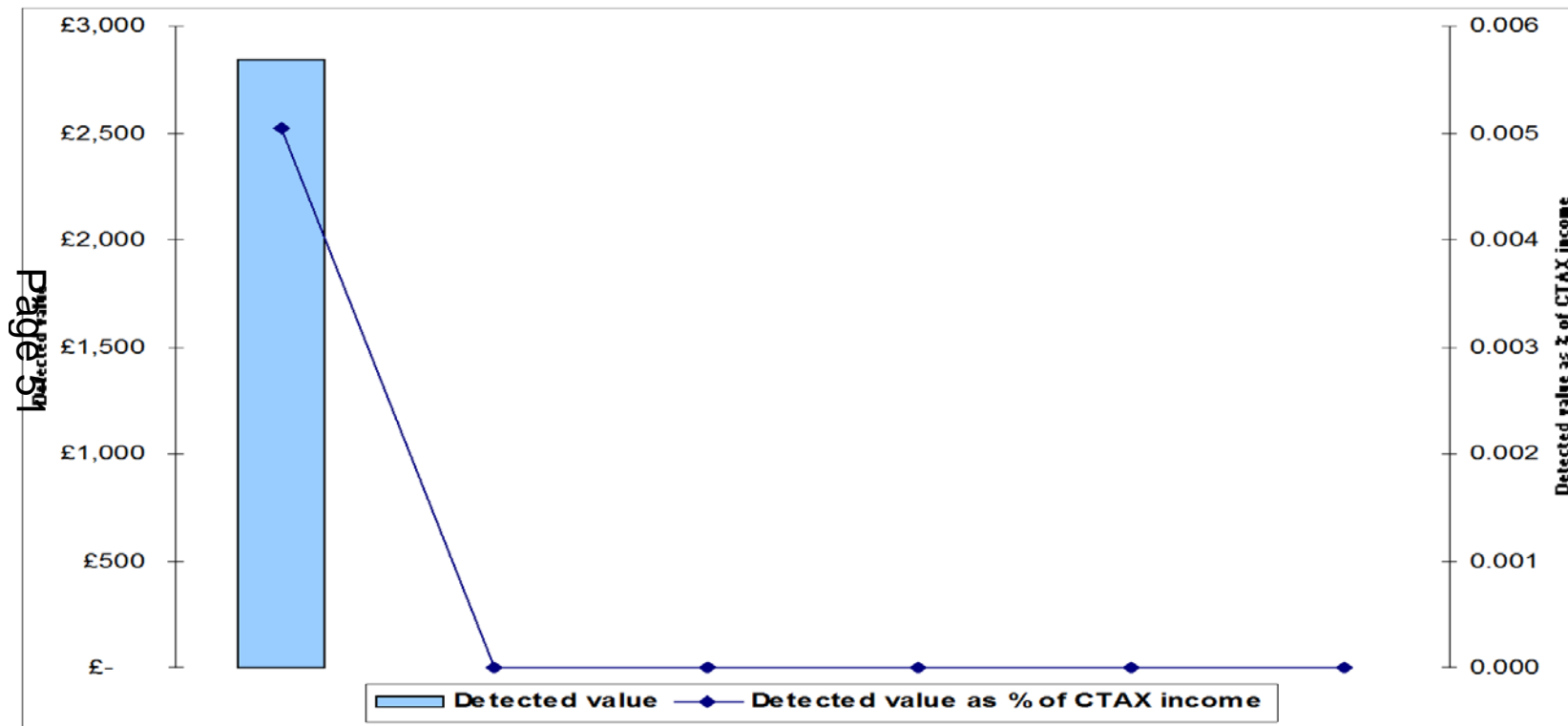
Source: Audit Commission

The local picture

District councils in your county area 2012/13

Council tax (CTAX) discount fraud

Detected value and detected value as a percentage of council tax income



Gloucester detected: no cases

DC average for your county area: 12 cases, valued at £474

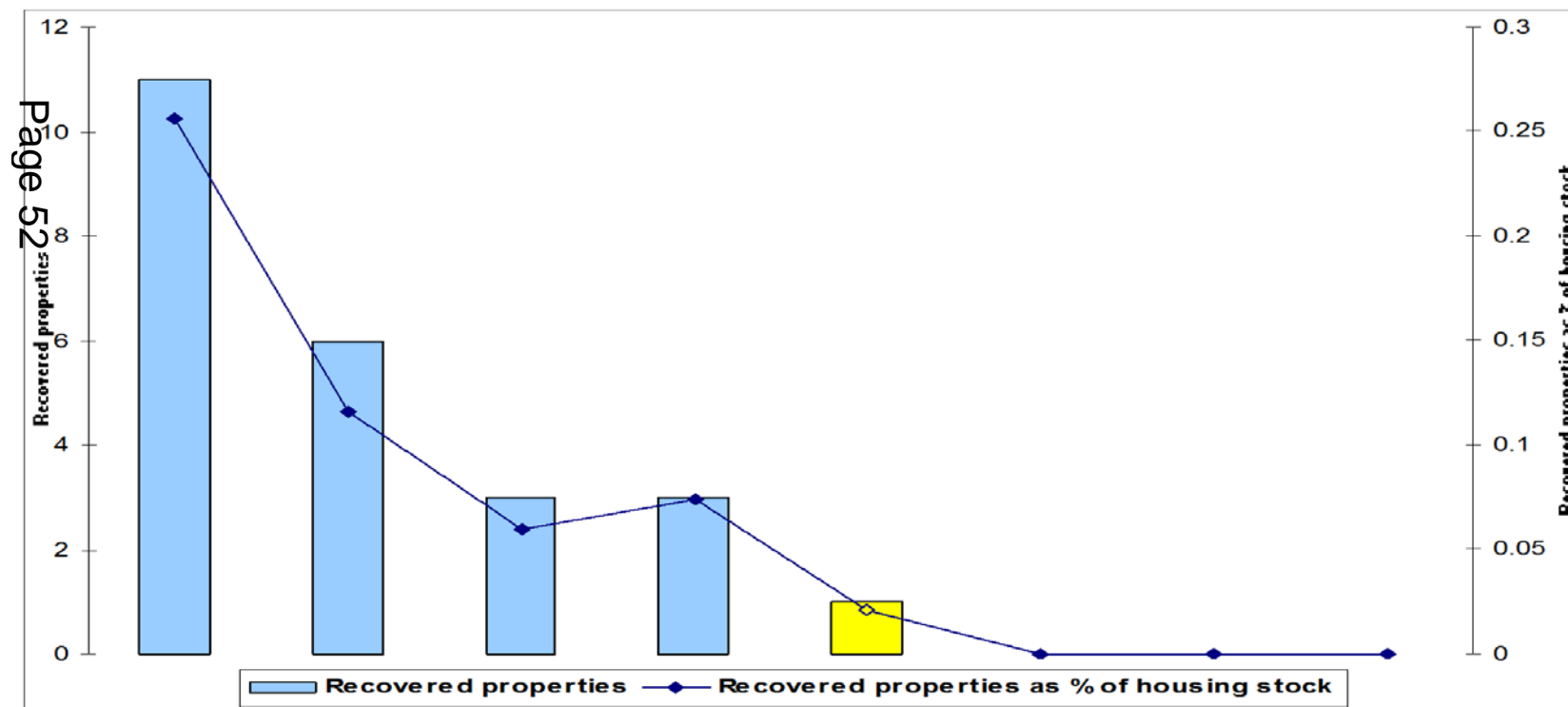
Source: Audit Commission

The local picture

South West region - district councils with housing stock 2012/13

Social housing fraud

Properties recovered and properties recovered as a percentage of housing stock

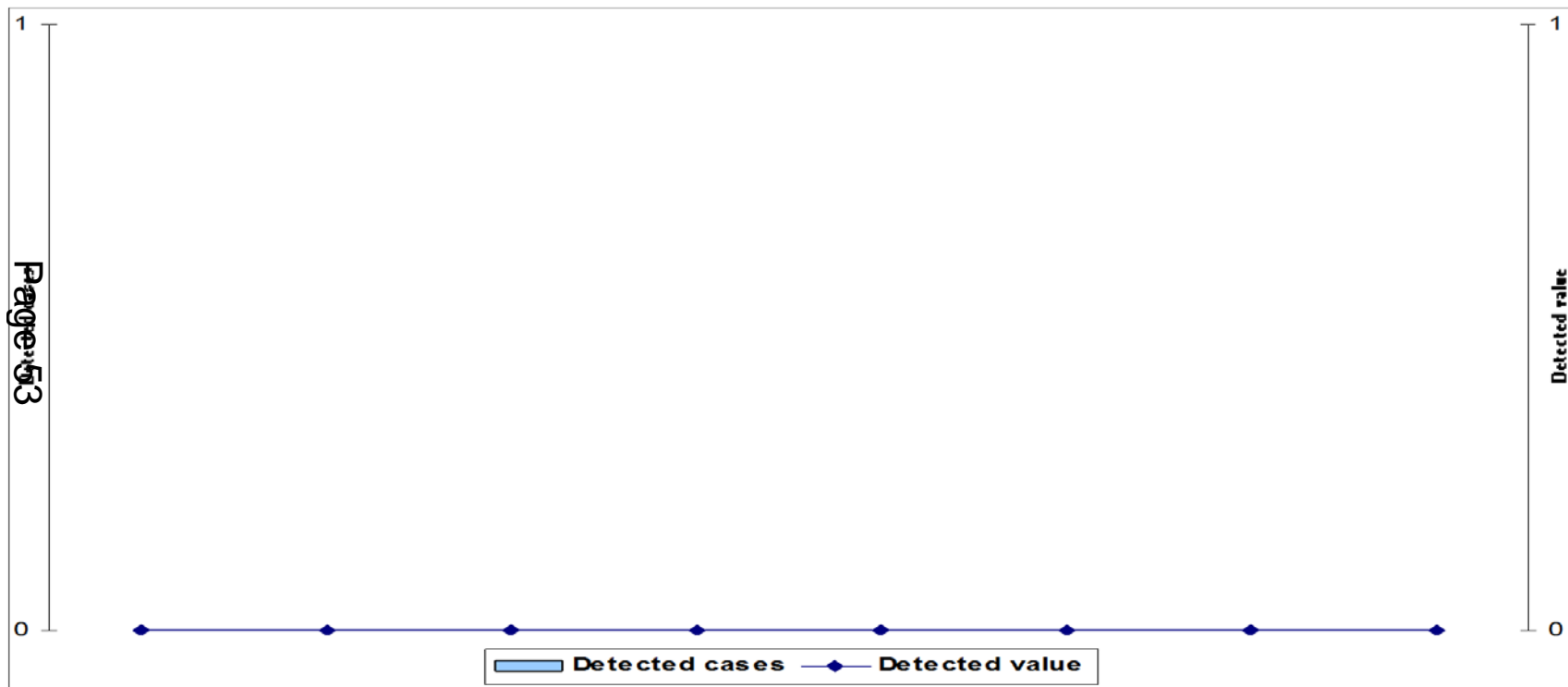


Gloucester recovered: 1 property
South West regional average: 3 properties

Source: Audit Commission

The local picture

South West region - district councils with housing stock 2012/13 Right to buy fraud Detected cases and detected value



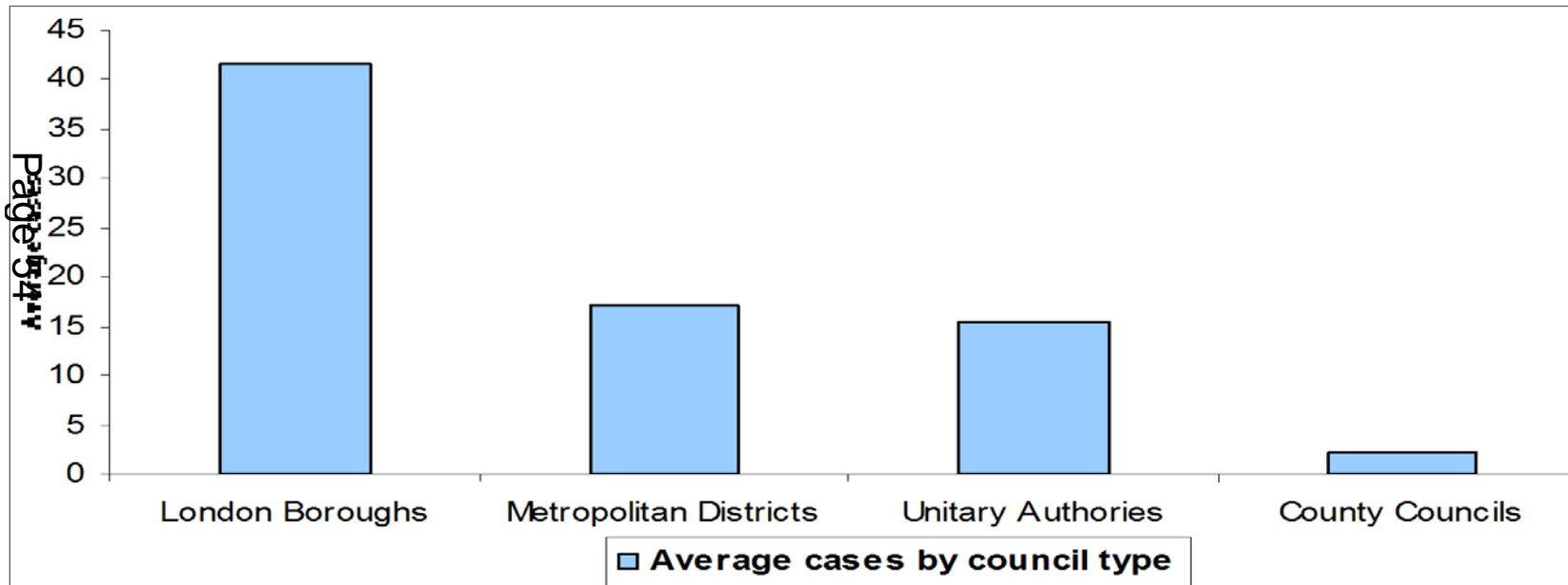
Gloucester detected: no cases

South West region total detected no cases

Source: Audit Commission

The local picture

Disabled parking (Blue Badge) fraud Detected cases by issuing council type



In two-tier areas:

- county councils have administrative responsibility for issuing blue badges
- district councils face reduced car parking income as a result of the fraudulent abuse of blue badges.

Source: Audit Commission

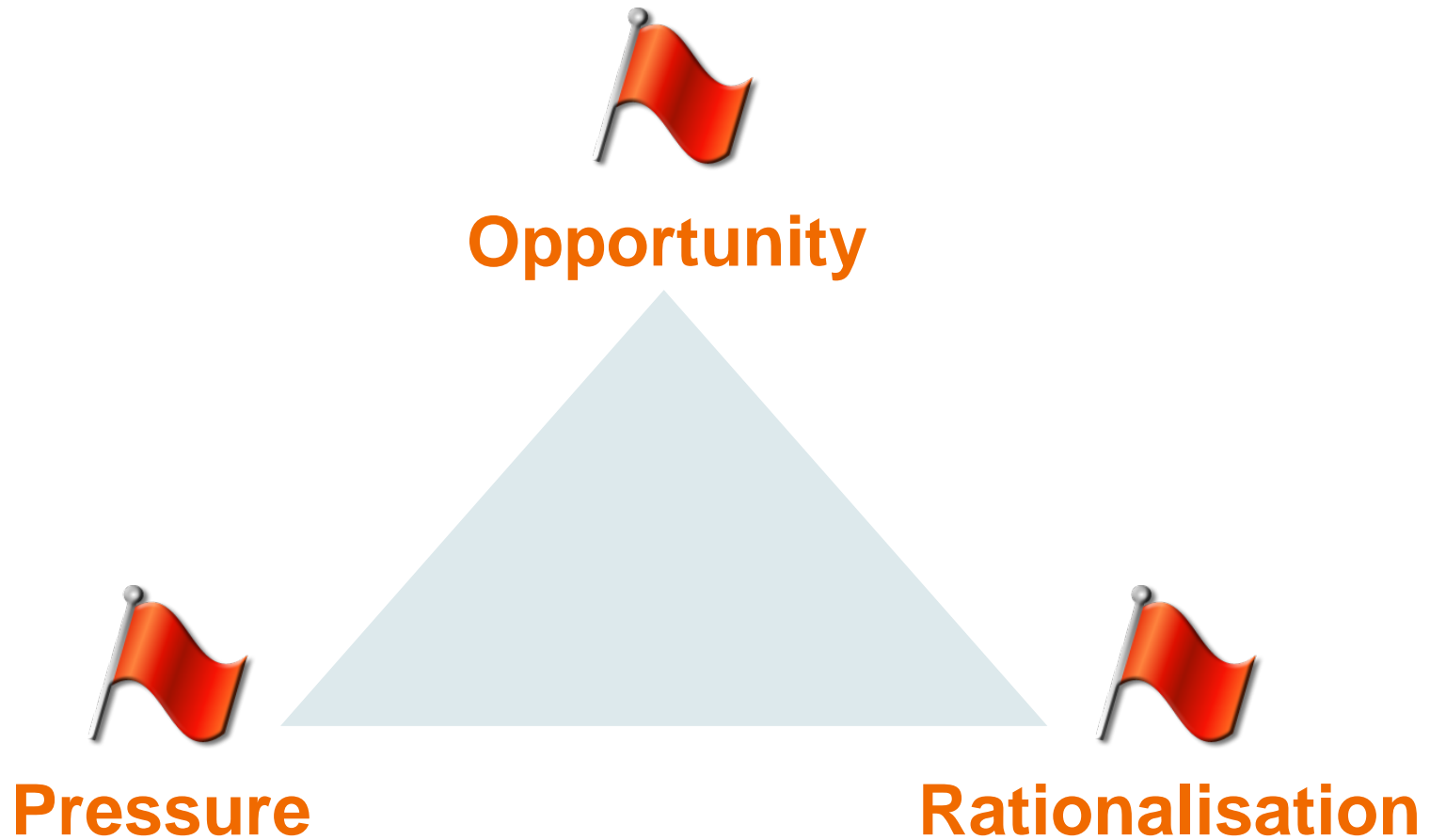
The local picture

Gloucester City Council

Other frauds

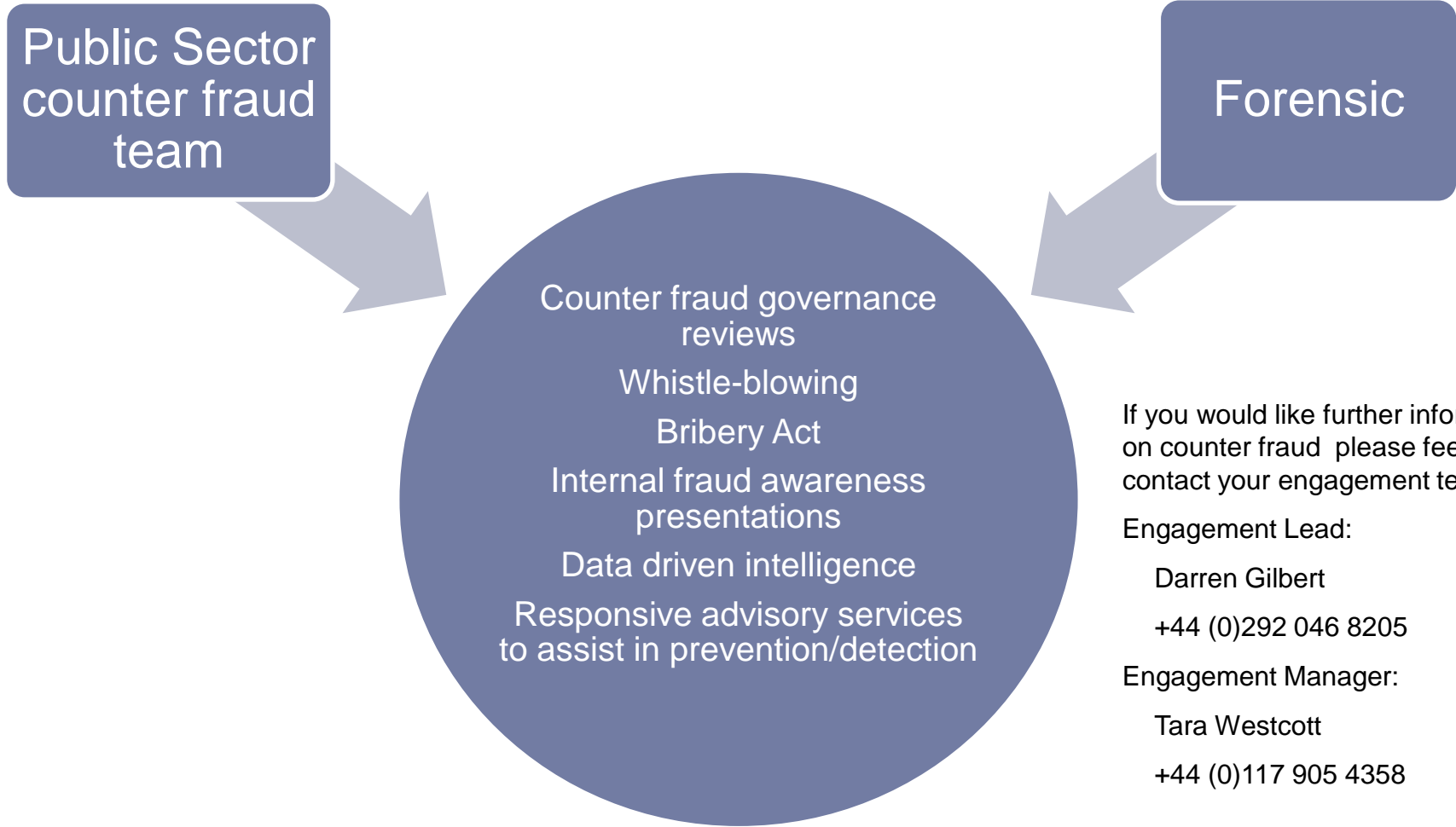
- Procurement: no cases
(Ave per DC in your county area: no cases)
Total for all local government bodies in your region: 16 cases, valued at £51,198)
- Insurance: no cases
(Ave per DC in your county area: no cases)
Total for all local government bodies in your region: 2 cases, valued at £17,379)
- Economic & Third sector: no cases
(Ave per DC in your county area: no cases)
Total for all local government bodies in your region: no cases)
- Internal fraud: 1 case, no value given
(Ave per DC in your county area: <1 case, valued at £123)
Total for all local government bodies in your region: 69 cases, value at £447,790)

Correctly recording fraud levels is a central element in assessing fraud risk
It is best practice to record the financial value of each detected case



Questions?





If you would like further information on counter fraud please feel free to contact your engagement team:

Engagement Lead:

Darren Gilbert
+44 (0)292 046 8205

Engagement Manager:

Tara Westcott
+44 (0)117 905 4358



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External audit progress report and technical update

Page 61
Gloucester City Council
June 2014

This report provides the audit committee with an overview on progress in delivering our responsibilities as your external auditors.

The report also highlights the main technical issues which are currently having an impact in local government.

If you require any additional information regarding the issues included within this report, please contact a member of the audit team.

We have flagged the articles that we believe will have an impact at the Authority and given our perspective on the issue:

- High impact
- Medium impact
- Low impact
- For info

Technical Update					
Final local government finance settlement 2014/15	●	3	Are other local authorities making more money? (CIPFA article)	●	9
Draft order published reflecting changes to council tax calculations	●	3	Rural Services Delivery funding announcement	●	9
Housing Revenue Account Borrowing Programme	●	4	Value for money data briefing on waste collection	●	10
LAAP Bulletin 98: Closure of the 2013/14 Accounts and Related Matters and	●	5	Financial ratios tool	●	10
Annual fraud and corruption survey 2013/14	●	6	Value for money data briefing on benefits administration	●	11
CIPFA Technical Accounting Alert – Frequency of Valuations for Property, Plant and Equipment	●	7	Judicial review over lost waste credits	●	11
Whole of government accounts (WGA) timetable	●	7	Administration of Benefits, including overpayments, cost councils £829m (Audit Commission article)	●	12
Audit Commission consultation on 2014/15 work programme and scales of fees for the National Fraud Initiative	●	8	High central costs in some councils need greater scrutiny (Audit Commission article)	●	12
Audit Commission 14/15 Scale Fees confirmed	●	9	Children's social care: the case for early intervention (CIPFA article)	●	12
Local Audit and Accountability Act 2014	●	9			

Appendices		
Appendix 1 – 2013/14 Audit deliverables	14	



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Technical update

Area	Level of Impact	Comments	KPMG perspective
Final local government finance settlement 2014/15 Page 64	High	<p>On 5 February 2014 the Government published the final local government finance settlement for 2014/15. In addition, the Government has proposed that any council tax increases made by billing or precepting authorities of 2 per cent or more will be subject to a referendum.</p> <p>For more information, visit https://www.gov.uk/government/speeches/final-local-government-finance-settlement-2014-to-2015</p>	<p><i>The committee may wish to consider the progress the Council has made on addressing the funding cuts and the impact this has on services</i></p>
Draft order published reflecting changes to council tax calculations	High	<p>The draft Localism Act 2011 (Consequential Amendments) Order 2014 was published on 9 January 2014. It proposes changes to sections 73 to 79 of the Localism Act 2011 that require billing authorities, major precepting authorities and local precepting authorities in England to calculate a council tax requirement for a financial year. Previously, such authorities were obliged to calculate a budget requirement for a financial year.</p> <p>The draft Order makes amendments to:</p> <ul style="list-style-type: none"> • section 31A(5) of the Local Government Finance Act 1992 (LGFA 1992) to exclude sums that have been or are transferred from an authority's general fund to its collection fund; • section 42A of the LGFA 1992 to ensure that grant repayments are taken into account as expenditure under section 85(4)(a) of the Greater London Authority Act 1999 (GLA 1999); and • schedule 6 of the GLA 1999 to provide that, if the approved consolidated budget or council tax requirement is found to be excessive, the GLA must agree a substitute consolidated budget or council tax requirement before (or after) the end of the financial year, if it has not already done so. <p>The draft Order will have effect in relation to financial years beginning 1 April 2014.</p>	<p><i>The committee may wish to consider whether the Council has considered the impacts of the proposed changes when assessing their council tax requirement for 2014/15 and beyond</i></p>

Area	Level of Impact	Comments	KPMG perspective
Housing Revenue Account Borrowing Programme	<p style="text-align: center;">●</p> <p style="text-align: center;">High</p>	<p>On 7 April the government launched the Housing Revenue Account Borrowing Programme which makes £300 million of borrowing available to provide 10,000 new affordable homes in 2015/16 and 2016/17. This funding will form part of the Local Growth Fund, available to local authorities who have a proposal agreed by their Local Enterprise Partnership.</p> <p>The government also published a revised set of General Consents under Section 25 of the Local Government Act 1988 which allows councils to dispose of vacant housing land to private registered providers and non-registered providers at less than market value.</p> <p>For more information visit https://www.gov.uk/government/news/extra-borrowing-powers-for-councils-to-build-10000-affordable-homes</p> <p>&</p> <p>https://www.gov.uk/government/publications/general-consents-for-privately-let-housing</p>	<p><i>The committee may wish to seek further information as to how this affects the Authority</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>LAAP Bulletin 98: Closure of the 2013/14 Accounts and Related Matters</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 66</p>	<p>● Medium</p>	<p>CIPFA has issued LAAP Bulletin 98: Closure of the 2013/14 Accounts and Related Matters which clarifies a number of issues regarding the preparation of 2013/14 financial statements in response to FAQs in relation to:</p> <ul style="list-style-type: none"> ▪ public health reform; ▪ Non-Domestic Rates – provision for appeals against the rateable value of business properties; ▪ component accounting; ▪ accounting for pension interest costs in relation to current service cost and pension administration costs; and ▪ disclosure requirements for dedicated schools grant. <p>The bulletin also highlights a number of other issues affecting the closure of the 2013/14 accounts:</p> <ul style="list-style-type: none"> ▪ accounting standards that have been issued but have not yet been adopted; ▪ use of example financial statements for preparation of the 2013/14 accounts; ▪ minor amendment to Code 2013/14 guidance notes on the use of indices; ▪ technical alerts; and ▪ notification of the discontinuance of Icelandic and capital interest rates bulletins. <p>With regard to future accounting periods, the Bulletin also provides an update on issues affecting 2014/15 and on the measurement of transport infrastructure assets in 2016/17.</p>	<p><i>The committee may wish to enquire when reviewing the financial statements that all relevant guidance has been considered.</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p>Annual fraud and corruption survey 2013/14</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 67</p>	<p>●</p> <p>Low</p>	<p>The Audit Commission annual fraud and corruption survey has been open to complete from 7 April.</p> <p>The survey requests information on detected fraud and corruption for the 2013/14 financial year. Completion and submission of the survey by audited bodies is a mandatory requirement under section 48 of the Audit Commission Act 1998.</p> <p>During the week commencing 7 April the Commission sent a link to the survey (using the Outreach EDC system) to directors of finance, or equivalent, at all principal local government bodies:</p> <ul style="list-style-type: none"> ▪ local authorities; ▪ police and crime commissioners; ▪ chief constables; ▪ the Mayor’s Office for Policing and Crime; ▪ the Commissioner of Police of the Metropolis; ▪ the Greater London Authority and associated bodies; ▪ fire and rescue authorities; ▪ national parks authorities; ▪ waste disposal authorities; ▪ integrated transport authorities; ▪ passenger transport executives; and ▪ stand-alone pensions authorities <p>The closing date for completion and submission of the survey is 16 May.</p>	<p><i>The committee may wish to seek assurance that the survey has been completed by the deadline.</i></p>

Area	Level of Impact	Comments	KPMG perspective
CIPFA Technical Accounting Alert – Frequency of Valuations for Property, Plant and Equipment	<p>● Low</p>	<p>CIPFA has issued a Technical Accounting Alert on the Frequency of Valuations for Property, Plant and Equipment. The Alert provides guidance to local authorities in interpreting the requirements for the revaluation of property, plant and equipment, but confirms that there are no changes to the requirements of the <i>CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14</i> which is still based on the underlying requirement to comply with IAS 16: <i>Property, Plant and Equipment</i>.</p> <p>For more information visit: http://www.cipfa.org/-/media/Files/Policy%20and%20Guidance/Panels/Local%20Authority%20Accounting%20Panel/Technical%20Alert%20Frequency%20of%20Valuations%20Final%20for%20publication.pdf</p>	<p><i>The Authority should ensure that revaluation programmes are compliant with the Code.</i></p>
Whole of government accounts (WGA) timetable	<p>● Low</p>	<p>HM Treasury has now published a corrected timetable for the submission of draft and audited Whole Government Accounts returns following the release of the WGA Newsletter – March 2014, which contained incorrect information.</p> <p>The revised timetable is on their website alongside various templates that audited bodies will be required to complete during the WGA process.</p> <p>For more information visit https://www.gov.uk/government/publications/whole-of-government-accounts-2013-to-2014-guidance-for-preparers</p>	<p><i>The Authority should ensure it is working to the correct WGA submission deadlines</i></p>

Area	Level of Impact	Comments	KPMG perspective
<p data-bbox="64 354 256 639">Audit Commission consultation on 2014/15 work programme and scales of fees for the National Fraud Initiative</p> <p data-bbox="95 719 140 879" style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 69</p>	<p data-bbox="298 354 358 429">● Low</p>	<p data-bbox="397 354 1686 439">From Monday 31 March the Audit Commission consulted on its proposed work programme and scales of fees for the 2014/15 National Fraud Initiative (NFI). The transfer of the Commission's data matching functions (the NFI) to the Cabinet Office is expected to take place when the Commission closes at the end of March 2015.</p> <p data-bbox="397 454 1686 539">The NFI 2014/15 work programme and scale of fees covers the Commission's final set of data matching activities and there will be work-in-progress at 31 March 2015 which will need to be completed by the Cabinet Office after the transfer.</p> <p data-bbox="397 554 623 582">Work Programme</p> <p data-bbox="397 586 1686 644">Existing mandatory data matches will continue to be a part of the NFI 2014/15 work programme. In addition the Commission is also proposing to introduce two new mandatory requirements in the NFI 2014/15:</p> <ul data-bbox="397 648 1686 739" style="list-style-type: none"> • Council tax to electoral register data sets will be requested from local authorities every year - currently this data is requested every two years; and • Personal budget (direct payments) data will be introduced. <p data-bbox="397 772 561 801">Consultation</p> <p data-bbox="397 805 1686 929">The Commission is proposing to carry out the NFI work programme, including the additional elements, within the existing scale of fees for mandatory participants. The consultation commenced on 31 March and continued until 12 May. The Commission will publish the final work programme and scales of fees for the NFI 2014/15 on 30 June. The consultation documents were available on the Commission's website from Monday 31 March.</p> <p data-bbox="397 962 1591 991">For more information visit http://www.audit-commission.gov.uk/fraud/nfi/public-sector/pages/fees.aspx</p>	<p data-bbox="1707 354 1991 496"><i>The committee may wish to consider whether the Authority has responded to the consultation</i></p>

Area	Level of Impact	Comments
Audit Commission 14/15 Scale Fees confirmed	● For information	The 2014/15 work programme and scales of fees are now available, alongside the lists of fees for individual bodies. A summary of the responses to the Audit Commission consultation on the work programme and fees is also available. For more information visit http://www.audit-commission.gov.uk/audit-regime/1415WPSF
Local Audit and Accountability Act 2014	● For information	The Local Audit and Accountability Act 2014 received Royal Assent on 30 January. The Act makes it possible for the Audit Commission to close, in line with the Government's expectations, on 31 March 2015. In its place there will be a new framework for local public audit, due to start after the Commission's current contracts with audit suppliers end in 2016/17, or in 2019/20 if they are extended. A transitional body, which is being set up by the Local Government Association, will oversee the contracts in the intervening period. In the statement the Commission's Chairman explains the main aims of the organisation in its final 14 months. Jeremy Newman also confirms plans are already in place for many of the residual responsibilities that will transfer to new organisations and highlights those for which a new owner has not yet been agreed. The Audit Commission's press release is available to view on its website: http://www.audit-commission.gov.uk/2014/01/finish-line-in-sight-for-audit-commission/
Are other local authorities making more money? (CIPFA article)	● For information	"In this period of prolonged austerity, it is essential for local authorities to take advantage of the various income generation streams available to them if they wish to raise additional revenue as a means of providing funding for services." Read the full article at: http://www.cipfa.org/policy-and-guidance/articles/are-other-local-authorities-making-more-money
Rural Services Delivery funding announcement	● For information	The Department for Communities and Local Government (DCLG) has confirmed that a settlement of £11.5 million will be made available to rural local authorities in 2014/15 to support them in transforming services and promoting efficiencies. This funding comprises £9.5 million of Rural Delivery Services funding, and £2 million additional funding targeted at the most rural councils. For more information, visit https://www.gov.uk/government/publications/rural-grant-allocations-for-2014-to-2015

Area	Level of Impact	Comments
<p>Value for money data briefing on waste collection</p> <p>Page 71</p>	<p>● For information</p>	<p>The Audit Commission has published Local authority waste management, the latest in a series of value for money (VFM) data briefings analysing data in the VFM profiles tool. The briefing examines spending and performance on household waste management.</p> <p>In 2012/13 the average spending on household waste management varied between local authorities with similar responsibilities. For example most authorities that both collect and dispose of waste (58 per cent) spent between £125 and £175 per household in 2012/13 but thirteen per cent spent more than £200 per household.</p> <p>In 2012/13, the amount of waste recycled varied from 12 per cent up to 67 per cent, with 40 authorities recycling less than 30 per cent of their household waste. And while landfill has reduced everywhere some regions are still more reliant than others.</p> <p>The variation in performance and spending suggests there may be opportunities to reduce expenditure. If councils were able to reduce their spending to the average for their authority type and waste responsibilities potentially up to £464 million could be saved overall. Any savings could be used to support more sustainable forms of waste management or be reinvested in other services.</p> <p>Previous briefings on councils' expenditure on benefits administration, council tax collection, social care for older people, income from charging and business rates are also available on the Commission's website.</p> <p>For more information visit http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/</p>
<p>Financial ratios tool</p>	<p>● For information</p>	<p>On 4 April, the Audit Commission published its updated financial ratios analysis tool.</p> <p>The ratios tool has been updated to include:</p> <ul style="list-style-type: none"> ▪ data for the 2012/13 financial year; and ▪ the restatement of the 2011/12 data where relevant. <p>The ratio tool continues to include data from 2007/08 for district, unitary and county councils, data from 2008/09 for Greater London Authority bodies and data from 2009/10 for standalone fire authorities.</p> <p>Information is included for police and crime commissioners for 2011/12 and 2012/13 reflecting the data available for these new bodies.</p>

Area	Level of Impact	Comments
<p>Value for money data briefing on benefits administration</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 72</p>	<p>● For information</p>	<p>The Commission has published Councils' expenditure on benefits administration, the latest in its series of value for money (VFM) data briefings analysing data in the VFM profiles tool. The briefing compares the cost of benefits administration to councils with the Department of Work and Pensions (DWP) funding received. The briefing reports that costs exceeded funding by £361 million in 2012/13, but identifies significant variations in the amount each council spends when compared with other councils of similar size and caseload.</p> <p>To read the report, visit: http://www.audit-commission.gov.uk/2014/01/administration-and-overpayment-of-benefits-cost-councils-829-million/</p> <p>Visit the VFM profiles tool website at: http://www.audit-commission.gov.uk/information-and-analysis/</p> <p>The briefing also reports that in 2012/13 councils paid £468 million more in benefits than they received in subsidy from DWP. Councils are encouraged to use the national and local data to get a better understanding of their performance and costs and consider the scope to reduce their costs by improving their efficiency and reducing errors, overpayments and fraud.</p> <p>Previous briefings on council tax collection, social care for older people, income from charging and business rates are also available on the at http://www.audit-commission.gov.uk/information-and-analysis/value-for-money-briefings-2/</p>
<p>Judicial review over lost waste credits</p>	<p>● For information</p>	<p>Two local authorities have withdrawn their application for a judicial review against Defra's decision to remove £65 million in waste infrastructure credits. North Yorkshire County Council and City of York Council said continuing with the judicial review, which was due to be heard at the end of the month, "would not be in the public interest".</p> <p>Their grounds of challenge included that the Secretary of State did not make the decision to withdraw the credits after the councils had approved the plans for the £1.4 billion Allerton Waste Recovery Park in a proper manner and Defra failed to follow its own published criteria. In a statement, North Yorkshire and City of York said: "If the councils proceeded with the judicial review, and were successful, Defra would be required to repeat the decision making process but it is now clear that the likely outcome would be that Defra would reach the same conclusions and the funding support for the project would not be reinstated."</p> <p>North Yorkshire County Council and York City Council have spent more than £7million over eight years on expert advice over plans for the site near Harrogate. If the scheme does not go ahead the councils could be liable for a termination payment to contractors AmeyCespa of up to £5m.</p> <p>Bradford and Calderdale councils, who also had a judicial review claim against Defra over the withdrawal of waste infrastructure credits, have settled their claim.</p>

Area	Level of Impact	Comments
Administration of Benefits, including overpayments, cost councils £829m (Audit Commission article)	<p>●</p> <p>For information</p>	<p>Councils administer housing benefit on behalf of central government. They also administered council tax benefit until it was replaced in April 2013 by local council tax support schemes. Councils' local arrangements, such as how quickly, accurately and efficiently they process claims, affect the amount they spend administering benefits and the amount of subsidy they receive from the Department for Work and Pensions (DWP). By improving their performance, councils can reduce their costs, which are in excess of £800 million per year.</p> <p>Read the full article http://www.audit-commission.gov.uk/2014/01/administration-and-overpayment-of-benefits-cost-councils-829-million/</p>
High central costs in some councils need greater scrutiny (Audit Commission article)	<p>●</p> <p>For information</p>	<p>The Audit Commission has published new analysis of data on English councils' central management costs in its briefing, Councils' Centrally Managed Spending: Using Data From the Value for Money Profiles. Overall spending on corporate and democratic management reduced by 13 per cent from 2003/04 to 2012/13, while spending on central management support to services increased by 10 per cent. However, gaps and inconsistencies in councils' recorded spending in these areas will, the Commission says, hinder councils' attempts to identify savings and undermines accountability to taxpayers. As a result, the Commission is calling for greater local scrutiny and more consistent reporting by councils of their central management spending.</p> <p>Read the full article http://www.audit-commission.gov.uk/2014/02/high-central-costs-in-some-councils-need-greater-scrutiny-2/</p>
Children's social care: the case for early intervention (CIPFA article)	<p>●</p> <p>For information</p>	<p>"Children's social care is a politically sensitive and emotive area. Yet under the austerity measures, it has seen increased demand, to be met by a smaller pool of funding. Department for Education (DfE) Statistics show over the past three years, referrals to children's social care have risen steadily, a growth of 12.43 per cent from 2008/09 to 2010/11. The reasons why demand is increasing needs to be examined – and, if possible, the causes addressed – in order to stem the rising tide."</p> <p>Read the full article http://www.cipfa.org/policy-and-guidance/articles/childrens-social-care-the-case-for-early-intervention</p>



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Appendix

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Appendix 1 – 2013/14 Audit deliverables

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We discuss and agree each report with the Council's officers prior to publication.

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Deliverable	Purpose	Timing	Status
Planning			
Fee letter	Communicate indicative fee for the audit year	April 2013	Complete
External audit plan	Outline our audit strategy and planned approach Identify areas of audit focus and planned procedures	March 2014	Complete
Interim			
Interim report	Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. Initial VFM assessment on the Council's arrangements for securing value for money in the use of its resources.	June 2014	Complete
Substantive procedures			
Report to those charged with governance (ISA+260 report)	Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Council's value for money arrangements.	September 2014	TBC
Completion			
Auditor's report	Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion).	September 2014	TBC
WGA	Concluding on the Whole of Government Accounts consolidation pack in accordance with guidance issued by the National Audit Office.	September 2014	TBC
Annual audit letter	Summarise the outcomes and the key issues arising from our audit work for the year.	November 2014	TBC
Certification of claims and returns			
Certification of claims and returns report	Summarise the outcomes of certification work on your claims and returns for Government departments.	December 2014	TBC



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Gloucester City Council

Meeting:	Audit & Governance Committee	Date:	26th June 2014
Subject:	Internal Audit Plan 2013/14 – Monitoring Report		
Report Of:	Audit, Risk & Assurance Manager		
Wards Affected:	Not applicable		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Terry Rodway, Audit, Risk & Assurance Manager		
	Email:	Terry.Rodway@gloucester.gov.uk	Tel: 396430
Appendices:	A: List of the remaining audits completed as part of the 2013/14 Internal Audit Plan		
	B: Rank 1 'high priority' recommendations not implemented by agreed date		

FOR GENERAL RELEASE

1.0 Purpose of Report

1.1 To inform Members of the remaining audits completed as part of the approved Internal Audit Plan 2013/14.

2.0 Recommendations.

2.1 Audit & Governance Committee is asked to **RESOLVE** that:

- (1) Members endorse the audit work undertaken to date, and the assurance given on the adequacy of internal controls operating in the systems audited.

3.0 Background and Key Issues

- 3.1 At the Audit & Governance Committee meeting held on 18th March 2013, Members approved the Internal Audit Plan 2013/14. In accordance with the Public Sector Internal Audit Standards, this report details the outcomes of internal audit work carried out in accordance with the approved Plan.
- 3.2 This report includes details of the remaining audits completed as part of the 2013/14 Annual Plan. The performance monitoring information is based on the number of completed audits vs. the number of planned audits (i.e. an output measure). The indicator for the 2013/14 Annual Plan is 88% (29 out of 33 planned audits completed) compared to a target of 90%.
- 3.3 The audits that were not completed within the annual plan timeframe have subsequently been completed and the overall conclusion reached on each of these audits has been provided in **Appendix A**.

- 3.4 The main reasons for the non-achievement of the audit target are: (a) a number of audits taking longer to complete than originally planned, and (b) a member of the team carrying out duties as a recognised union representative, the time for which is allowed for in the appropriate Council policy, but this time was not included in the original agreed Audit Plan.
- 3.5 Details of the audits completed, together with the overall conclusion reached on each audit, have been provided in **Appendix A**. This should provide Members with a view on the adequacy of the controls operating within each area audited.
- 3.6 It has previously been agreed that Members would be notified of all 'Rank 1 Fundamental' recommendations that have not been implemented within the agreed timescale – see **Appendix B** for details.

4.0 Alternative Options Considered

- 4.1 No other options have been considered as the purpose of the report is to inform the Committee of the audit work undertaken to date, and the assurance given on the adequacy of internal controls operating in the systems audited.

5.0 Reasons for Recommendations

- 5.1 The Public Sector Internal Audit Standards state that the Audit, Risk & Assurance Manager should report on the outcomes of internal audit work, in sufficient detail, to allow the Committee to understand what assurance it can take from that work and/or what unresolved risks or issues it needs to address.

6.0 Future Work and Conclusions

- 6.1 The role of the Audit & Assurance service is to examine, evaluate and report upon the adequacy of internal controls. Where weaknesses have been identified, recommendations have been made to improve the level of control.

7.0 Financial Implications

- 7.1 As detailed in this report.

(Financial Services have been consulted in the preparation this report).

8.0 Legal Implications

- 8.1 None specific to this report.

(Legal Services have been consulted in the preparation this report).

9.0 Risk & Opportunity Management Implications

- 9.1 Delays in response to acceptance/implementation of audit recommendations lead to weaknesses continuing to exist in systems, which has the potential for fraud and error to occur.

10.0 People Impact Assessment (PIA):

- 10.1 A requirement of the Accounts & Audit Regulations 2011 is for the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The internal audit service is delivered by the in house team. Equality in service delivery is demonstrated by the team being subject to, and complying with, the Council's equality policies.
- 10.2 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

11.0 Other Corporate Implications

Community Safety

- 11.1 There are no community safety implications arising out of the recommendation in this report.

Sustainability

- 11.2 There are no sustainability implications arising out of the recommendation in this report.

Staffing & Trade Union

- 11.3 There are no staffing and trade union implications arising out of the recommendation in this report.

Background Documents:

Internal Audit Plan 2013/14
Public Sector Internal Audit Standards

Appendix A: List of the remaining audits completed as part of the 2013/14 Internal Audit Plan

Audit	Comments	Level of Assurance
Debtors	<p><u>Audit Objective</u> The objectives for this audit were to verify that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • Reconciliation of the Sundry Debtor system to the General Ledger • Reconciliation of the Sundry Debtor system to the Cash Receipting system • Production and independent review of Sundry Debtor arrears reports • Adequate password-based access restrictions to the Sundry Debtor system • Reviews are performed upon user access rights to the Sundry Debtors system <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, there is a 'Good' level of assurance on the adequacy and operating effectiveness of controls in place over the Debtors system, except for the 'reviews performed upon access rights', for which a 'Satisfactory' level of assurance can be provided.</p> <p>One 'Rank 2 Medium Priority' recommendation has been made and agreed by the appropriate manager.</p>	Good/ Satisfactory
Cash & Bank	<p><u>Audit Objective</u> The objectives for this audit were to verify that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • Bank reconciliations • Reconciliations of the cash receipting system to General Ledger • Reviews performed upon the unallocated cash suspense account • Reconciliations of procurement card and credit card transactions <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of</p>	Good/ Satisfactory

Audit	Comments	Level of Assurance
	<p>recommendations identified through audit testing, there is a 'Good' level of assurance on the adequacy and operating effectiveness of controls in place over the 'cash & bank' system, except for the reconciliation between the Flex system and the general ledger for which a 'Satisfactory' level of assurance can be provided.</p> <p>Two 'Rank 2 Medium Priority' recommendations have been made and agreed by the appropriate manager.</p>	
General Ledger	<p><u>Audit Objective</u> The objective of the internal audit was to ensure that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • Adequate password based access restrictions to the general ledger system • Regular evidenced independent review of user access rights • Regular evidenced independent review of the appropriateness of 'super users' (system administrator level access) • System restrictions to inputting one sided journals • Periodic production and independent review of journal exception reports (i.e. journal entries >£10,000); or independent preparation, authorisation and input of journals • Periodic clearance of suspense and holding account balances, supported by evidenced management review • Ledger mapping: annual update and review of the general ledger mapping to SERCOP headings • Feeder system reconciliation to the general ledger <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, the audit opinion is that there is Satisfactory level of assurance on the adequacy and operating effectiveness of controls in place over the general ledger.</p> <p>The main area of weakness identified, for which one 'Rank 2 Medium Priority' recommendation has been made and agreed by the appropriate manager, relates to the lack of segregation of duty between preparation, authorisation & input for all journal types or a lack of journal exception report review of journals e.g. ></p>	Satisfactory

Audit	Comments	Level of Assurance
	£10k).	
Creditors	<p><u>Audit Objective</u> The audit objective was to ensure that controls are in place and operating effectively over:</p> <ul style="list-style-type: none"> • Periodic reconciliation of the Creditors system to the general ledger • Adequate password-based access restrictions to the Creditors system • Periodic review of exception reports <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, there is a 'Satisfactory' level of assurance on the adequacy and operating effectiveness of controls in place over the creditors system.</p> <p>The main areas of weakness identified, for which two 'Rank 2 Medium Priority' recommendations have been made and agreed by the appropriate manager, relate to:-</p> <ul style="list-style-type: none"> - Whilst reconciliation between the key creditors sub-ledgers and the relevant general ledger control accounts appear to be being undertaken, there is no physical evidence of review and sign-off - The ability to create new suppliers and amend the details of existing suppliers on the system is limited to staff in Financial Services, but there is no exception reporting of these actions 	Satisfactory
Risk Management	<p><u>Audit Objective</u> The objectives for this audit were to verify that the following controls were in place and operating effectively</p> <ul style="list-style-type: none"> • A risk management strategy is in place, approved by Members and kept under review • A strategic risk register is maintained, reviewed and updated on a regular basis, which assesses, scores and records risks in accordance with the methodology set out in the strategy • Identification of risks is taking place as required under the strategy at service level and the assessment, scoring and recording of risks (in risk registers) at service level is being carried out in accordance with the standardised methodology set out in the 	Satisfactory

Audit	Comments	Level of Assurance
	<p>strategy</p> <ul style="list-style-type: none"> • Service level risk management is aligned with the revised organisational structure • There is a clear two way linkage of highly rated risks from the service level risk registers to the strategic risk register when risk ownership is defined at the service level • Risk management activities are taking place in respect of partnerships and aligned with the risk management strategy • Responsibilities under the risk management strategy at member and committee level, corporate leadership level and service management level are allocated to individuals and being discharged <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, there is a 'Satisfactory' level of assurance over the risk management process within the Council.</p> <p>The main areas of weakness identified, for which three 'Rank 2 Medium Priority' recommendations have been made and agreed by the appropriate manager, were:-</p> <ul style="list-style-type: none"> - There are a small number of gaps in the production of individual service risk registers - The linkage between the strategic risk register and service risk registers to reinforce the ownership of strategic risks by services where appropriate - The strategic risk register has not been reviewed by Members 	
Payroll	<p><u>Audit Objective</u> The objectives for this audit were to verify that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • Regular and evidenced review of payroll system reconciliation to the General Ledger • Establishment lists are circulated to managers for verification • Management review of exception reports • Adequate password-based access restrictions to the Payroll system 	Good/ Satisfactory/ Limited

Audit	Comments	Level of Assurance
	<p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, the budgetary control audit opinion has been split as follows:</p> <p>A ‘Good’ level of assurance can be provided in relation to the reconciliation of the payroll system and the password based access restrictions to the system. A ‘Satisfactory’ level of assurance can be provided in relation to the verification of the establishment list by managers. However, only a ‘Limited’ level of assurance can be provided in relation to the management review of exception reports.</p> <p>One ‘Rank 1 High Priority’ and one ‘Rank 2 Medium Priority’ recommendation has been made and agreed by the appropriate manager.</p>	
Budgetary Control	<p><u>Audit Objective</u> The objective of the internal audit was to ensure that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • Management review of revenue income and expenditure against budget • Budget monitoring procedures and responsibilities are appropriately defined and communicated • Delegated cost-centre managers are clearly identified • Budget reports are produced and issued to cost-centre managers on a monthly basis • High-level financial monitoring reports / management accounts are produced and circulated periodically to senior management/Members • Significant budget variances are investigated / explained <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, the budgetary control audit opinion has been split as follows:</p> <p>A ‘Good’ level of assurance can be provided in relation to budget monitoring procedures and responsibilities, and Identification of delegated cost-centre manager. A ‘Satisfactory’ level of assurance can be provided in relation to budget monitoring (cost</p>	Good/ Satisfactory/ Limited

Audit	Comments	Level of Assurance
	<p>centre managers and SMT). However, only a 'Limited' level of assurance can be provided in relation to budget monitoring (Members), and budget virements.</p> <p>The main areas of weakness identified, for which two 'Rank 1 High Priority' and one 'Rank 2 Medium Priority' recommendations have been made and agreed by the appropriate manager were:</p> <ul style="list-style-type: none"> - Lack of an audit trail to confirm complete or consistent cost centre manager (service level) budget monitoring for April to October 2013 - As at the date of the audit only two budget monitoring reports (year end forecast) have been presented to Members during the year; - Lack of supporting documents with authorisation for all budget virements completed within 2013/14 	
Capital Accounting	<p><u>Audit Objective</u> The objective of the internal audit was to ensure that the following controls were in place and operating effectively:</p> <ul style="list-style-type: none"> • A five year rolling programme of revaluation for fixed assets held at current cost • Annual impairment review of tangible and intangible fixed assets • Periodic review of capital expenditure against the capital programme • Periodic reconciliation of the fixed asset register to the general ledger • Periodic physical verification of tangible fixed assets • Controls in relation to accuracy of depreciation, e.g. reconciliation of movement in depreciation from prior year to movement in fixed asset balance • Contract review – maintenance of a central contracts register and review of significant new contracts to identify service concession arrangements and embedded leases <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, the capital accounting audit opinion has been split as follows:</p> <p>A 'Good' level of assurance can be provided in relation to the Revaluation programme; impairment</p>	Good/ Satisfactory/ Limited

Audit	Comments	Level of Assurance
	<p>review; and physical verification of fixed assets. A 'Satisfactory' level of assurance can be provided in relation to the reconciliation of the fixed asset register to the general ledger, and depreciation controls. However, only a 'Limited' level of assurance can be provided in relation to Capital programme setting and monitoring .</p> <p>The main areas of weakness identified, for which two 'Rank 1 High Priority' recommendations have been made and agreed by the appropriate manager were:-</p> <ul style="list-style-type: none"> - The capital programme setting reports to Members were not in accordance with Constitution requirements - The lack of regular capital monitoring reports issued to Members for review and scrutiny in 2013/14 	
Catering - Arbor	<p><u>Audit Objective</u> The audit objective was to ensure that controls are in place and operating effectively over:</p> <ul style="list-style-type: none"> • Cash income • Gifts and hospitality • Stock and waste • Debtor income • Petty cash • Timesheets • Creditor payments • Security <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing, there is a 'Limited' level of assurance on the adequacy and operating effectiveness of controls in place over catering.</p> <p>The main areas of weakness identified, for which three 'Rank 1 High Priority' and six 'Rank 2 Medium Priority' recommendations have been made and agreed by the appropriate manager relate to:-</p> <ul style="list-style-type: none"> - Till reconciliations are not always signed-off by both the officer undertaking the process and someone to perform an independent check - Multiple minor inaccuracies over the expected contents of the till were noted - Stock and waste levels are not recorded or monitored - Petty cash is not being certified by a manager, and 	Limited

Audit	Comments	Level of Assurance
	<p>is often not reimbursed by someone independent of the transaction</p> <ul style="list-style-type: none"> - Timesheets for zero hours staff are not being authorised by an approved manager - Creditor invoices do not appear always to have been preceded by an approved purchase order - Purchase orders have not always been fully goods receipted, resulting in an outstanding commitment at year-end - Some creditor payments were inappropriately coded - Security arrangements regarding storage of the safe key and the amount of cash held are currently insufficient 	
Catering - Docks	<p><u>Audit Objective</u> The audit objective was to ensure that controls are in place and operating effectively over:</p> <ul style="list-style-type: none"> • Cash income • Gifts and hospitality • Stock and waste • Debtor income • Petty cash • Creditor payments <p><u>Audit Opinion</u> On the basis of work carried out during this audit review, and the number and classification of recommendations identified through audit testing there is a 'Limited' level of assurance on the adequacy and operating effectiveness of controls in place over catering.</p> <p>The main areas of weakness identified, for which three 'Rank 1 High Priority' and three 'Rank 2 Medium Priority' recommendations have been made and agreed by the appropriate manager relate to:-</p> <ul style="list-style-type: none"> - The service does not currently use a till, and does not cash-up on a daily basis - therefore there is no daily reconciliation of takings to expected income - VAT is not being treated consistently when cash income is posted to the relevant general ledger code - Offers of gifts and hospitality are not being recorded in accordance with Council policy - Stock and waste levels are not recorded or monitored - Sundry debtor invoices for external catering and room hire are not being raised promptly - Cash income is occasionally being used in lieu of petty cash, as the catering facility has no petty 	Limited

Audit	Comments	Level of Assurance
	cash float or purchasing card	

The report includes an audit opinion on the adequacy of controls in the area that has been audited, classified in accordance with the following descriptions:-

CONTROL LEVEL	DESCRIPTION
Good	Robust framework of controls – provides substantial assurance. A few minor recommendations (if any) i.e. Rank 3 (Low Priority).
Satisfactory	Sufficient framework of controls – provides satisfactory level of assurance – minimal risk. A few areas identified where changes would be beneficial. Recommendations mainly Rank 3 (Low Priority), but one of two in Rank 2 (Medium Priority).
Limited	Some lapses in framework of controls – provides limited level of assurance. A number of areas identified for improvement. Mainly Rank 2 (Medium Priority) recommendations, but one or two Rank 1 (High Priority) recommendations.
Unsatisfactory	Significant breakdown in framework of controls – provides an unsatisfactory level of assurance. Unacceptable risks identified – fundamental changes required. A number of Rank 1 (High Priority) recommendations.

Ranking of Recommendations:-

RANK		DESCRIPTION
1	High Priority	Necessary due to statutory obligation, legal requirement, Council policy or major risk of loss or damage to Council assets, information or reputation, or, compliance with External Audit key control.
2	Medium Priority	Could cause limited loss of assets or information or adverse publicity or embarrassment. Necessary for sound internal control and confidence in the system to exist.
3	Low Priority	Current procedure is not best practice and could lead to minor inefficiencies.

Appendix B: Rank 1 'high priority' recommendations not implemented by agreed date

Audit	Date	Recommendation	Agreed Action	Responsible Officer	Agreed Implementation Date	Management comment	Revised Implementation Date
Client Monitoring - Revenues & Benefits Contract	July 2013	Actions are required to ensure that the '10% checks' required to be performed upon benefit assessments are to be completed on a timely basis.	These are now being done on a daily basis. The Financial Projects Supervisor is working with the council's contractor to review the process.	Financial Projects Supervisor	31 st July 2013	An additional resource was bought in to resolve the checking backlog. Whilst this did address the original issue, a new backlog has arisen. The new client partnership arrangement with FDDC should provide additional resources to assist with this issue.	31 st August 2014
Client Monitoring – Payroll Contract	July 2013	The service level agreement (SLA) detailing the payroll service to be provided requires formal agreement by both parties.	HR is working with the contractor to agree the SLA. Legal Services will need to be involved once the revised draft is received from the contractor.	HR & OD Manager	31 st August 2013	Both the HR & OD Manager and the Director of Resources have been in discussions with the contractor to agree a revised draft SLA.	To be confirmed.

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Meeting:	Audit & Governance Committee	Date: 26 June 2014
Subject:	Audit, Risk & Assurance Manager's Annual Report 2013/14	
Report Of:	Audit, Risk & Assurance Manager	
Wards Affected:	N/A	
Key Decision:	No	Budget/Policy Framework: No
Contact Officer:	Terry Rodway, Audit, Risk & Assurance Manager	
	Email: Terry.Rodway@gloucester.gov.uk	Tel: 396430
Appendices:	A: List of audits that resulted in a 'Limited' or 'Unsatisfactory' level of assurance	

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 To provide Members with a brief overview of Internal Audit work, compliance with Financial Regulations, Contract Standing Orders, and general probity issues for the financial year ending 31st March 2014, and, to provide an opinion on the overall adequacy and effectiveness of the organisation's control environment.

2.0 Recommendations

- 2.1 Audit & Governance Committee is asked to **RESOLVE** to:

- (1) Endorse the assurance from the Audit, Risk & Assurance Manager that a satisfactory level of assurance can be given that there is a generally sound system of internal control, designed to meet the Council's objectives, and that controls are generally being applied consistently.

3.0 Background and Key Issues

- 3.1 Internal Audit work during the year was carried out to the standards outlined in the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note for the UK PSIAS.
- 3.2 The Standards require the Head of Internal Audit to 'provide a written report to those charged with governance timed to support the Annual Governance Statement'. A separate report containing the Annual Governance Statement is included on the agenda for the Audit & Governance Committee on 26th June 2014.
- 3.3 The Standards define internal audit as "an independent objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

3.4 To achieve full effectiveness the scope of the internal audit function should provide an unrestricted range of coverage of the organisation's operations and the internal auditor should have sufficient authority to access such records, assets and personnel as are necessary for the proper fulfilment of responsibilities. These access rights are specified in the Internal Audit Charter, which has been approved by Members and is referred to in the Council's Constitution.

4.0 Opinion

4.1 The Council's Audit, Risk & Assurance Manager is required to produce a formal annual report and opinion on the overall adequacy and effectiveness of the Council's internal control environment.

4.2 My overall opinion is that a satisfactory level of assurance can be given that there is a generally sound system of internal control, designed to meet the Council's objectives, and that controls are generally being applied consistently.

4.3 My opinion is based upon, and limited to, the work completed as part of the agreed 2013/14 Internal Audit Plan, the results of which have been reported to the Audit & Governance Committee during the year. The opinion does not imply that Internal Audit has reviewed all risks and assurances relating to the Council, but is based upon the range of individual opinions arising from the audit assignments completed.

4.4 These individual opinions are summarised below:-

Opinion	No	%
Good	17	33
Satisfactory	18	36
Limited	13	25
Unsatisfactory	3	6
TOTAL	51	100

NB On a number of audits a 'split' opinion has been provided. This approach helps to identify to management the specific areas of control that are/are not operating as intended, rather than provide an overall conclusion on all the areas covered by the audit. Where a 'split' opinion has been provided on an audit, both opinions have been included in the above table. Details of the audits that received a 'Limited' or 'Unsatisfactory' level of assurance are provided in Appendix A.

4.5 The PSIAS state that, within this annual report, the Council's Audit, Risk & Assurance Manager should identify any issues that are relevant to the preparation of the Annual Governance Statement.

4.6 The main control issues identified as a result of internal audit work during the year, and which resulted in an unsatisfactory level of assurance, relate to contract management. Whilst issues such as these would normally be identified as a 'significant governance issue' and therefore relevant to the preparation of the annual governance statement, as Members have received assurance from the appropriate managers during the year that appropriate controls are now in place, it is my opinion that these issues do not require to be specifically reported in the governance statement.

5.0 Summary of 2013/14 Work

5.1 Annual Plan

5.1.1 The Internal Audit Plan for 2013/14 was agreed by the Audit & Governance Committee at its meeting on 18th March 2013.

5.1.2 Audits have been carried out on the following areas during the year:

Financial Services, Revenues & Benefits, Streetcare, Homelessness, BT&T, Disabled Facility Grants, Development Control, Asset Management, Parking, Catering, Risk Management.

The internal audit section also provided internal audit services, under a Service Level Agreement, to Gloucester City Homes and Aspire Leisure Trust.

5.2 Internal Control Assurance

5.2.1 Internal financial controls are continually reviewed across all service areas by carrying out a mixture of system-based audits and probity audits.

5.2.2 System based auditing involves the identification, documentation, evaluation and testing of controls. Recommendations are made to management where weaknesses are identified. Where appropriate, use is made of CIPFA's System Based Auditing Control matrices. These matrices act as an aid to identifying the control objectives, expected controls and compliance tests for each main system.

5.2.3 Probity audit involves testing, by means of sampling, transactions to ensure that the 'rules' of the organisation have been adhered to, that material fraud and significant levels of error are not in evidence, and that the organisation is acting within its statutory powers.

5.2.4 The audit work on the main financial systems (e.g. main accounting system, creditors, benefits, payroll, council tax, NNDR) involved the testing of key controls as detailed within the Joint Working Agreement (JWA) between Internal Audit and External Audit. This JWA defined a number of key systems and key controls which the External Auditor would expect Internal Audit to cover on an annual basis to support the external audit work on the financial statements. The required scope for these encompassed both assessment of the design and implementation of controls, with walkthroughs of the system where applicable (testing of a single case to verify the documentation of systems and controls), and testing of the effective operation of the controls.

5.2.5 Close co-operation between audited bodies' internal and external auditors helps to ensure that audit resources are used efficiently and to maximum effect. The aim of the JWA is for External Audit to place a high degree of reliance on the work of the internal audit team. This will help inform their judgement on the Council's financial control environment, and is also one of the factors taken into account when calculating the External Audit fee.

5.2.6 The External Audit Interim Audit Report 2013/14 confirms that KPMG:

‘...did not identify any significant issues with internal audit’s work and are pleased to report that (KPMG) are again able to place full reliance on their work on the key financial systems. In our opinion Internal Audit’s files contained appropriate evidence to support the conclusions reached; reports are clear and easy to follow; and there is clear evidence of management review of work completed.’

5.2.7 Follow-up audits are planned to be carried out to ensure that agreed recommendations have been implemented. Members have requested to be informed of any Rank 1 ‘High Priority’ recommendations that have not been implemented by the agreed date and these have been reported via the quarterly ‘Internal Audit Plan Monitoring Report’.

5.3 Other Issues

5.3.1 In relation to the 2013/14 Annual Plan, 88% of the Audit Plan has been completed. Best practice guidance suggests (at least) 90% for completion of the Audit Plan as a good benchmark. The main reasons for non achievement of this target, which have been previously reported to this Committee, were (a) a number of audits taking longer to complete than originally planned, and (b) a member of the team carrying out duties as a recognised union representative, the time for which is allowed for in the appropriate Council policy, but this time was not included in the original agreed Audit Plan.

5.3.2 The Section has a number of other performance indicators to monitor performance. These are:

Indicator	Target	Performance 2011/12	Performance 2012/13	Performance 2013/14 (Estimates)
Cost/Auditor (£000)	‘Average’	£53.98 (£54.59) Avge	£60.99 (£55.91) Avge	£58.06 (£57.28) Avge
Pay Cost/Auditor (£000)	‘Average’	£40.49 (£41.77) Avge	£43.55 (£41.54) Avge	£43.28 (£ 42.08) Avge
Overhead Cost/Auditor (£000)	‘Average’	£13.49 (£12.82) Avge	£17.44 (£14.37) Avge	£14.78 (£15.20) Avge
Productive Days per Auditor	‘Average’	181 (166) Avge	161 (166) Avge	174 (173) Avge
Cost per Chargeable Audit Day	‘Average’	£348 (£358) Avge	£392 (£374) Avge	£313 (£359) Avge
% of Audit Plan Completed	Min 90%	90% (Revised Plan)	86% (Revised Plan)	88%
Level of Customer Satisfaction – per audit.	Good (3)	See para. 5.3.3below	See para. 5.3.3below	>Good (3.6) NB See para. 5.3.3below

NB (1) The Average (Avge) relate to the 'group' average figures obtained from the CIPFA Benchmarking Club. The 'group' relates to the Shire Districts who are members of the Benchmarking Club.

(2) The performance figures for 2013/14 are estimates. The 'actuals' figures for 2013/14 are due to be published in July 2014

- 5.3.3 At the completion of an audit, the auditee is asked to complete a questionnaire giving their views (on a scale of 1-4: 1 = Poor; 2 = Fair; 3 = Good; 4 = Very Good) on the audit. This is in accordance with the PSIAS which states that performance monitoring should include stakeholder feedback.
- 5.3.4 As at the end of March 2014, only a minimal number of survey forms had been completed and returned (19% response rate). Although the results of the survey indicate a 'Good' rating (average score 3.6) the results are being treated with an element of caution due to the relatively low response rate. As a result of this, a revised method of obtaining feedback is to be introduced during 2014/15. This should make the task of providing feedback a simpler process which, together with some support from SMT, should hopefully increase the level of feedback.
- 5.3.5 The work of each member of staff is controlled by the Audit, Risk & Assurance Manager to ensure compliance with the Standards. All reports and working papers are reviewed to ensure the correct approach has been adopted, no matters have been overlooked, and any conclusions can be supported.
- 5.3.6 In order to help ensure audit staff keep up to date with current issues and techniques, work reviews and annual staff development reviews are carried out to identify any training and personal development needs. In addition, all appropriate staff are encouraged to register with a relevant Continuing Professional Development (CPD) scheme.
- 5.3.7 In accordance with the Accounts & Audit (England) Regulations 2011, the annual review of the effectiveness of internal audit has been undertaken. The conclusion from the review, which is the subject of a separate report to the Audit & Governance Committee on 26th June 2014, was that internal audit is effective.
- 5.3.8 In addition to the annual review of effectiveness, the Council's External Auditors, KPMG, also carry out an assessment of internal audit work that has been carried out as part of the agreed JWA. The KPMG Interim Audit Report 2013/14 feedback is confirmed verbatim in report section 5.2.6.
- 5.3.9 In relation to staffing matters, the provision of the internal audit service to Gloucester City Council (GCC) and Stroud District Council (SDC) continued to be provided by Gloucestershire Audit & Assurance Partnership (**G A A P**). The provision of the Internal Audit service is by a team of 6 auditors, 3 based at GCC, 3 based at SDC, and is managed by the Head of the Partnership.

6.0 Alternative Options Considered

6.1 Not applicable.

7.0 Reasons for Recommendations

- 7.1 In accordance with the PSIAS and the Local Government Application Note for the UK PSIAS, the Council's Audit, Risk & Assurance Manager is required to produce a formal annual report and opinion on the overall adequacy and effectiveness of the Council's internal control environment.

8.0 Future Work

- 8.1 The Council's Internal Audit Plan for 2014/15 was approved by the Audit & Governance Committee on 17th March 2014. Achievement against the Plan will be regularly reported to the Audit & Governance Committee via the Internal Audit Plan Quarterly Monitoring Report.

9.0 Conclusions

- 9.1 In conclusion, this report has been prepared in accordance with the PSIAS and the Local Government Application Note for the UK PSIAS, and provides the Audit, Risk & Assurance Manager's opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- 9.2 The opinion, which is based upon, and limited to the work performed by Internal Audit during the year, is that a satisfactory level of assurance can be given that there is a generally sound system of internal control, which is designed to meet the Council's objectives, and that controls are generally being applied consistently.

10.0 Financial Implications

- 10.1 As detailed in the report

(Financial Services have been consulted in the preparation this report.)

11.0 Legal Implications

- 11.1 None specific to this report.

(Legal Services have been consulted in the preparation this report.)

12.0 Risk & Opportunity Management Implications

- 12.1 The organisation is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records, and, governance arrangements. The organisation's response to internal audit activity should lead to the strengthening of the control environment and therefore contribute to the achievement of the organisations objectives.

13.0 People Impact Assessment (PIA):

- 13.1 A requirement of the Accounts & Audit Regulations 2011 is for the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The internal audit service is delivered by the in house team. Equality in service delivery is demonstrated by the team being subject to, and complying with, the Council's equality policies.

13.2 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

14.0 Other Corporate Implications

Community Safety

14.1 There are no community safety implications arising out of this report.

Sustainability

14.2 There are no sustainability implications arising out of this report.

Staffing & Trade Union

14.3 There are no staffing and trade union implications arising out of this report.

Background Documents: Internal Audit Charter
Public Sector Internal Audit Standards
Local Government Application Note for the UK Public Sector
Internal Audit Standards
Accounts & Audit (England) Regulations 2011

Appendix A: List of audits that resulted in a 'Limited' or 'Unsatisfactory' level of assurance

Audit	Limited	Unsatisfactory
Capital Accounting (2012/13)	Controls relating to the reporting to SMT and Members of capital expenditure against budget.	
Utilities Contract Management	Controls relating to:- <ul style="list-style-type: none"> - The receipt of all reports agreed to be provided in the contract. There needs to be a considered analysis and regular review of these reports to enable effective contract management. - Checks to be performed on the meter readings & energy pricing prior to authorisation of the invoices. - The use of KPIs to help monitor the performance of the contractor. 	
Response Repairs Contract Management		Controls relating to:- <ul style="list-style-type: none"> - Current contract arrangements need to be fully reviewed to determine whether this is the most suitable method of procurement for this type of work. - The requirement to demonstrate value for money has been achieved with each job completed, particularly where the current contractor has not been used. - Compliance with Contract Standing Orders, for all works less than £5k, - Orders being raised prior to the purchase invoice, in line with the Council constitution. - Regular (monthly) review meetings with the contractor; quarterly Key Performance Indicators received and an Annual Performance Review. - Checks on the quality of the work being performed by both the contractor and other suppliers need to be fully documented and appropriately signed off.
Homelessness	Controls relating to :- <ul style="list-style-type: none"> - The release of payments from the Housing Options Fund. - The recovery from clients of tenancy rescue payments. 	
Streetcare		Controls relating to:-

Audit	Limited	Unsatisfactory
Contract Client Monitoring		<ul style="list-style-type: none"> - A full review of the Contract to identify the conditions and specifications had not been performed to determine how they are being managed and whether there are any gaps that require resolution. - Central registers for Service Change Requests or Contract Variations between the Council and the contractor. - Checks performed on the Annual Contract Sum. - The application of the annual indexation calculation by the contractor in the 2011/12 and 2012/13 Annual Contract Sums against the Contract resulting in a possible overpayment of £280k. - Work included in the 2012/13 Annual Contract Sum may have been incorrectly subject to the indexation calculation and therefore the Council may have been overcharged for these services. - Documentary evidence to support the change in the employers' pension contribution level paid by the Council. - Checking of contractor's invoices. Overpayments of approximately £13k were identified by Internal Audit. - Work orders are being incorrectly raised and invoices approved by Service areas and functions separate to the Environmental Service Manager. - Documentary evidence that quarterly accounts meetings with the contractor have been held to review a breakdown of costs of the Core Contract Services and to challenge spend.
BT&T	Controls relating to:- <ul style="list-style-type: none"> - BT&T Business Continuity Plan. 	
Social Media policy	Controls relating to:- <ul style="list-style-type: none"> - Periodic review of users, regular password changes, and, leavers. 	

Audit	Limited	Unsatisfactory
Council Tax	Controls relating to:- <ul style="list-style-type: none"> - Documentary evidence that Council Tax suppressed bills identified within the Batch Billing Exception Reports are being reviewed on a regular basis or in line with the reporting timeframe. 	
Non Domestic Rates	Controls relating to:- <ul style="list-style-type: none"> - Documentary evidence that Council Tax suppressed bills identified within the Batch Billing Exception Reports are being reviewed on a regular basis or in line with the reporting timeframe. 	
Parking	Controls relating to:- <ul style="list-style-type: none"> - Checking of current staff/member parking permits to ensure correct payments are being made; - Issue of cases to, and receipt of payments from, the bailiff. 	
Budgetary Control	Controls relating to:- <ul style="list-style-type: none"> - Audit trail to confirm complete or consistent cost centre manager (service level) budget monitoring for April to October 2013. - Reporting to Members - Only two budget monitoring reports (year end forecast) had been presented to Members during the year. - Supporting documents with authorisation for all budget virements completed within 2013/14. 	
Capital Accounting (2013/14)	Controls relating to:- <ul style="list-style-type: none"> - The capital programme setting and monitoring reports to Members should be in accordance with Constitution requirements. - The lack of capital monitoring reports issued to Members for review and scrutiny in 2013/14. 	
Catering – Arbor	Controls relating to:- <ul style="list-style-type: none"> - Till reconciliations. - Recording and monitoring of stock and waste levels. - Use of Petty cash. - Raising of approved purchase orders. - Security arrangements regarding storage of the safe key and the amount of cash held on site. 	

Audit	Limited	Unsatisfactory
Catering – Docks	Controls relating to:- <ul style="list-style-type: none"> - Daily reconciliation of takings to expected income. - Coding of VAT. - The offers of gifts and hospitality. - Recording and monitoring of stock and waste levels. - Raising of sundry debtor invoices for external catering and room hire. 	
Payroll	Controls relating to :- <ul style="list-style-type: none"> - Management review of exception reports. 	

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Meeting:	Audit & Governance Committee	Date:	26 June 2014
Subject:	Review of Effectiveness of Internal Audit		
Report Of:	Corporate Director of Resources		
Wards Affected:	N/A		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Peter Gillett, Corporate Director of Resources		
	Email:	Peter.Gillett@gloucester.gov.uk	Tel: 396401
Appendices:	A: Review of Effectiveness of Internal Audit		
	B: Table of Non-Conformance		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 To inform Members of the outcome of the review of the effectiveness of Internal Audit as required under the Accounts and Audit (England) Regulations 2011.

2.0 Recommendations

- 2.1 Audit & Governance Committee is asked to **RECOMMEND** to
- (1) Approve the review process and note the outcome of the review of the effectiveness of Internal Audit.

3.0 Background and Key Issues

- 3.1 The Accounts and Audit (England) Regulations 2011 includes the requirement for authorities to review the effectiveness of its internal audit once a year. The Regulations further state that the findings of this review should be included in the Annual Governance Statement.
- 3.2 The Department for Communities and Local Government (DCLG) has previously issued guidance that suggests, for authorities that have an audit committee, it is the appropriate group to receive and consider the results of the review.
- 3.3 The DCLG offers little practical guidance on how the review of effectiveness should be carried out, however, guidance has previously been received from the IPF Finance Advisory Network (FAN) on how the review might be undertaken. This guidance suggests the Head of Internal Audit could carry out a self-assessment which would then have to be independently reviewed before being submitted to the audit committee. The outcome of the self-assessment carried out by the Audit, Risk & Assurance Manager is detailed in Appendix A, and this has been reviewed by the Corporate Director of Resources.

4.0 Alternative Options Considered

4.1 Not applicable.

5.0 Reasons for Recommendations

5.1 The Accounts and Audit (England) Regulations 2011 includes the requirement for authorities to review the effectiveness of its internal audit once a year. The DCLG has previously issued guidance that suggests, for authorities that have an audit committee, it is the appropriate group to receive and consider the results of the review.

6.0 Future Work and Conclusions

6.1 As the review of the effectiveness of internal audit is a legislative requirement, a review will be carried out on an annual basis.

6.2 The overall conclusion is that internal audit at Gloucester City Council is effective. Although the self-assessment has identified a number of 'gaps' in conformance with the Public Sector Internal Audit Standards (PSIAS) (detailed at Appendix B), these do not materially effect the reliance the Council can place on the Audit, Risk & Assurance Manager's opinion on the adequacy of the control environment.

7.0 Financial Implications

7.1 None specific to the recommendation made in this report.

(Financial Services have been consulted in the preparation this report.)

8.0 Legal Implications

8.1 As detailed in the report.

(Legal Services have been consulted in the preparation this report.)

9.0 Risk & Opportunity Management Implications

9.1 In essence, the need for the review is to ensure that the opinion on the adequacy of the control environment, contained in the annual report of the Audit, Risk & Assurance Manager, may be relied upon as a key source of evidence in the Annual Governance Statement. The focus of this self-assessment has been on the delivery of the internal audit service to the required standards in order to produce the required outcome i.e. a reliable assurance on internal control and the management of risks in the authority.

10.0 People Impact Assessment (PIA):

10.1 A requirement of the Accounts & Audit Regulations 2011 is for the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control. The internal audit service is delivered by the in house team. Equality in service delivery is demonstrated by the team being subject to, and complying with, the Council's equality policies.

10.2 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

11.0 Other Corporate Implications

Community Safety

11.1 There are no community safety implications arising out of this report.

Sustainability

11.2 There are no sustainability implications arising out of this report.

Staffing & Trade Union

11.3 There are no staffing and trade union implications arising out of this report.

Background Documents: Accounts & Audit (England) Regulations 2011
Public Sector Internal Audit Standards (PSIAS)

Appendix A

Report to Corporate Director of Resources

Review of Effectiveness of Internal Audit – 2013/14

- 1.0 The Accounts and Audit (England) Regulations 2011 include the requirement for authorities to conduct a review of the effectiveness of internal audit, at least once a year. The Department for Communities and Local Government (DCLG) has previously issued guidance that suggests, for authorities that have an audit committee, it is the appropriate group to receive and consider the results of this review.
- 2.0 The DCLG offers little practical guidance on how the review of effectiveness should be carried out, however, guidance has previously been received from the IPF Finance Advisory Network (FAN) on how the review might be undertaken. This guidance suggests the Head of Internal Audit could carry out a self-assessment which would then have to be independently reviewed before being submitted to the audit committee. The following 'Results of the Review' is the outcome of the self-assessment carried out by the Audit, Risk & Assurance Manager.

3.0 Results of the Review

3.1 Definition of 'Effectiveness'

In the absence of any formal guidance, and for the purposes of this review, the effectiveness of internal audit has been taken to mean 'an assurance function that provides an independent and objective opinion to the organisation on the control environment'.

3.2 Internal Audit

Two authorities, Gloucester City Council (GCC) and Stroud District Council (SDC), formed the Gloucestershire Audit & Assurance Partnership (**G A A P**) in order to deliver a professional, cost effective, efficient, internal audit function to the partner organisations. The provision of the internal audit service at GCC is by a team consisting of 4 staff, including the Audit, Risk & Assurance Manager.

The mission statement of the service, as identified in the Business Plan, is 'to provide an efficient cost effective Audit & Assurance service which gives a professional, independent and objective opinion on the adequacy and effectiveness of the council's control environment comprising risk management, internal control, and, governance'.

3.3 Public Sector Internal Audit Standards (PSIAS)

The PSIAS, which replaced the previous CIPFA Code of Practice for Internal Audit, became effective from 1st April 2013. The PSIAS apply to all public sector internal audit service providers, whether in-house, shared services or outsourced.

These new Standards are intended to promote further improvement in the professionalism, quality, consistency, and, effectiveness of internal audit across the

public sector. The Chartered Institute of Public Finance and Accountancy (CIPFA) has produced a Local Government Application Note to provide guidance to local authorities on how to apply the new Standards.

One of the specific requirements of the Accounts & Audit Regulations 2011 is that a relevant body must '*undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control*'. Following discussions with the DCLG with regards to what constitutes 'proper practices', CIPFA have advised that 'proper practices' for UK local government is the PSIAS plus the Local Government Application Note. Therefore the content of both these documents must be followed in order to satisfy proper internal audit practices. The Local Government Application Note includes a checklist which is useful for assessing conformance with the PSIAS and therefore informing the review of the effectiveness of internal audit.

3.4 Key Performance Indicators for Internal Audit

The PSIAS state that performance monitoring should include performance targets. Performance is regularly monitored by the Audit, Risk & Assurance Manager using key performance indicators (KPI's) for the service. Performance is also reported to Members as part of the Internal Audit Plan Monitoring Report that is presented to the Audit Committee on a quarterly basis.

The KPI's for Internal Audit, and performance, are as follows:

Indicator	Target	Performance 2011-12	Performance 2012-13	Performance 2013-14 (Estimates)
Cost/Auditor (£000)	'Average'	£53.98 (£54.59) Avge	£60.99 (£55.91) Avge	£58.06 (£57.28) Avge
Pay Cost/Auditor (£000)	'Average'	£40.49 (£41.77) Avge	£43.55 (£41.54) Avge	£43.28 (£42.08) Avge
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Cost per Chargeable Audit Day	'Average'	£348 (£358) Avge	£392 (£374) Avge	£313 (£359) Avge
% of Audit Plan Completed	Min 90%	90% (Revised Plan)	86% (Revised Plan)	88%
Level of Customer Satisfaction – per audit.	Good (3)	See para 3.5 below	See para 3.5 below	>Good (3.6) NB See para 3.5 below

NB (1) The Average (Avge) figures relate to the group average figures obtained from the CIPFA Benchmarking Club. The group relates to the Shire Districts who are members of the Benchmarking Club.

(2) The performance figures for 2013-14 are estimates. The 'actuals' figures for 2013-14 are due to be published in July 2014

3.5 Customer Feedback

At the completion of an audit, the auditee is asked to complete a questionnaire giving their views (on a scale of 1-4:- 1 = Poor; 2 = Fair; 3 = Good; 4 = Very Good) on the audit. This is in accordance with PSIAS which states that performance monitoring should include stakeholder feedback.

As at the end of March 2014, only a minimal number of survey forms had been completed and returned (19% response rate). Although the results of the survey indicate a 'Good' rating (average score 3.6), the results are being treated with an element of caution due to the relatively low response rate.

Due to the low response rate, a revised method of obtaining feedback is to be introduced during 2014/15. This should make the task of providing feedback a simpler process, which, together with some support from SMT, should hopefully increase the level of feedback.

3.6 External Audit

The Audit & Assurance team have a Joint Working Protocol with the Council's External Auditors. Close co-operation between audited bodies' internal and external auditors helps to ensure that audit resources are used efficiently and to maximum effect. The aim of the Joint Working Protocol is for External Audit to place a high degree of reliance on the work of the Internal Audit team. This will help inform their judgement on the Council's financial control environment, and is also one of the factors taken into account when calculating the External Audit fee.

The External Audit Interim Audit Report 2013/14 confirms that KPMG:

'...did not identify any significant issues with internal audit's work and are pleased to report that (KPMG) are again able to place full reliance on their (Internal Audit's) work on the key financial systems. In our opinion Internal Audit's files contained appropriate evidence to support the conclusions reached; reports are clear and easy to follow; and there is clear evidence of management review of work completed.'

4.0 **Conclusions**

In essence, the need for the review is to ensure that the opinion on the adequacy of the control environment, contained in the annual report of the Group Manager Audit & Assurance, may be relied upon as a key source of evidence in the Annual Governance Statement. The focus of this self-assessment has been on the delivery of the internal audit service to the required standards in order to produce the required outcome i.e. a reliable assurance on internal control and the management of risks in the authority.

The overall conclusion is that internal audit at Gloucester City Council is effective. Although this self-assessment has identified a number of 'gaps' in conformance with the PSIAS (detailed at appendix B), it is the author's view that these do not materially effect the reliance the Council can place on the Audit, Risk & Assurance Manager's opinion on the adequacy of the control environment.

Terry Rodway
Audit, Risk & Assurance Manager
6th June 2014

Table of Non-Conformance

The following narrative provides a commentary on those areas where it has been assessed that the Audit & Assurance service does not fully conform to the PSIAS.

Non-Conformance

Standard	Conformance to the Standard	Evidence	Action	Date
1110 – Organisational Independence	<p>The following examples can be used by the CAE when assessing the organisational independence of the internal audit activity:</p> <ul style="list-style-type: none"> - The Audit & Governance Committee approves the internal audit budget and resource plan. - The Audit & Governance Committee approves decisions relating to the appointment and removal of the Audit, Risk & Assurance Manager. - The chief executive or equivalent undertake, countersign, contribute feedback to or review the performance appraisal of the Audit, Risk & Assurance Manager. - Feedback is sought from the chair of the Audit & Governance Committee for the Audit, Risk & Assurance Manager's performance appraisal. 	Recognised as non-conformance items – reported to Audit & Governance Committee 23/09/13.	<i>Accepted by Corporate Director (Resources).</i>	N/A

Standard	Conformance to the Standard	Evidence	Action	Date
1312 – External Assessments	Has an external assessment been carried out, or is planned to be carried out, at least once every five years?	Whilst the requirement to carry out an external assessment is known, this has not been carried out or planned to be carried out.	<i>Discuss with the Corporate Director of Resources and the Chair of Audit & Governance Committee the scope and timetable for the external review</i>	<i>By 31/03/15</i>
2010 - Planning	Does the risk-based plan set out the:- <ul style="list-style-type: none"> - Respective priorities of the audit work to be carried out? - Differentiate between audit and other types of work? 	<ul style="list-style-type: none"> - The plan does not prioritise the audits to be completed. All audits are scheduled for completion within the plan and are not ranked low/medium/high priority. - Non audit work (VFM/risk management/project work by the team) is not captured through the plan. 	<i>Accepted by Corporate Director (Resources).</i>	<i>N/A</i>
2110 - Governance	Has the internal audit activity evaluated the: <ul style="list-style-type: none"> a) Design b) implementation, and c) effectiveness of the organisation's ethics-related objectives, programmes and activities?	This was not identified as an area of significant risk when the Annual Internal Audit Plan 2014/15 was being discussed.	<i>This issue will be discussed at the officer Corporate Governance Group to determine the extent of the work required.</i>	<i>By 31/12/14</i>
2110 - Governance	Has the internal audit activity assessed whether the organisation's information technology governance supports the organisation's strategies and objectives?	This was not identified as an area of significant risk when the Annual Internal Audit Plan 2014/15 was being discussed.	<i>There is provision within the 2014/15 Plan for an information technology audit, and this area will be considered when agreeing the scope for this audit.</i>	<i>By 31/03/14</i>

Partial Conformance

Standard	Conformance to the Standard	Evidence	Action	Date
Definition of IA	Is the internal audit activity independent?	Audit, Risk & Assurance Manager also has responsibility for risk management.	<i>Accepted by Corporate Director (Resources). Internal audit of risk management arrangements sourced externally.</i>	N/A
1000 – Purpose, Authority & Responsibility	Does the Internal Audit Charter establish the responsibility of the Audit & Governance Committee and also the role of the statutory officers (such as the CFO, the monitoring officer and the head of paid service) with regards to internal audit?	IA Charter refers to the role of the CFO, the Proper Officer (Corporate Director of Resources), and Monitoring Officer (Para 8.2) – Head of Paid Service not specifically referred to.	<i>To be included as part of the review of the Internal Audit Charter by the Audit, Risk & Assurance Manager</i>	<i>By 30/09/14</i>
1130 – Impairment to Independence or Objectivity	Are assignments for ongoing assurance engagements and other audit responsibilities rotated periodically within the internal audit team?	Wherever possible, however, scope for rotation is limited within a small internal audit team	<i>Accepted by Corporate Director (Resources).</i>	N/A
1311 – Internal Assessments	Does ongoing performance monitoring include comprehensive performance targets?	The performance targets in place relate to the number of days to complete an individual audit (individual – based on audit budget) and target % completion of the annual plan (team). Cost comparison via CIPFA Audit Benchmarking Club is also completed. However, Effectiveness survey response rates are low.	<i>A revised method of inviting stakeholder feedback is to be introduced during 2014/15.</i>	<i>By 31/07/14</i>

Standard	Conformance to the Standard	Evidence	Action	Date
2010 - Planning	Does the Audit, Risk & Assurance Manager take into consideration any proposed consulting engagement's potential to improve the management of risks, to add value and to improve the organisation's operations before accepting them? Are consulting engagements that have been accepted included in the risk-based plan?	The audit plan does not formally include consulting services (i.e. services outside of audit). Any consulting engagements agreed would be taken out of the Contingency element of the Annual Internal Audit Plan.	<i>Accepted by Corporate Director (Resources).</i>	<i>N/A</i>
2040 – Policies and Procedures	Has the CAE developed and put into place policies and procedures to guide the internal audit activity?	The Internal Audit Charter is the main policy that guides audit procedure. This was last updated as at Sept 13. Other policies and procedures (e.g. audit manual; standard working papers; standard report template) are in place, however some are either out of date or are inconsistent between audit sites.	Documentation to be reviewed, updated and communicated to the team in 2014/15.	<i>Complete review by 31/03/15</i>

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Gloucester City Council

Meeting:	Cabinet	Date:	25 June 2014
	Audit and Governance Committee		26 June 2014
Subject:	Treasury Management Update – Quarter 4 Report 2013/14		
Report Of:	Corporate Director of Resources		
Wards Affected:	All		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Jon Topping, Head of Finance		
	jon.topping@gloucester.gov.uk		Tel: 396242
Appendices:	<ol style="list-style-type: none"> 1. Prudential and Treasury Indicators 2. Treasury Management Investments 3. Economic Outlook 4. Detailed Economic Commentary 5. Interest rate forecasts 		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 One of the requirements of the revised Code of Practice for Treasury Management in November 2011 recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report covers Quarter 4, 1st December 2013 to 31st March 2014.
- 1.2 This report will highlight issues specific to the Council and also highlight the overall economic outlook as provided by the Councils treasury advisors Capita Asset Services.
- 1.3 The body of the report provides an overview of the Councils performance in Quarter 4 ;
 - **Appendix 1** highlights the key performance indicators in line with the Councils Treasury Management Strategy.
 - **Appendix 2** is the investments held at the end of quarter 4.
 - **Appendix 3** is an economic summary provided by the Councils treasury advisors.
 - **Appendix 4** is a detailed commentary on the economic outlook
 - **Appendix 5** is a detailed commentary on interest rate forecasts
- 1.4 The reports presented to Audit & Governance committee for the first 3 quarters of 2013-14 contained some errors in prudential indicator limits and also did not highlight that one limit had been exceeded in each quarter, including quarter 4. It

needs to be noted this did not present a significant risk to the Council as this indicator represents a risk when interest rates are high or rising.

1.5 The 2014-15 Treasury Management Strategy has revised these limits back to more realistic levels, in line with previous strategies and in accordance with general best practice.

2.0 Recommendations

2.1 **Cabinet** is asked to **RESOLVE** that the report be noted.

2.1.1 **Audit and Governance Committee** is asked to **RESOLVE**

(1) that the report be noted and note that no changes are required to the prudential indicators.

(2) to note that one prudential indicator has been exceeded during 2013-14.

3.0 Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2013/14, which includes the Annual Investment Strategy, was approved by the Council on 10th April 2013. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

3.1 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cashflow needs, but also to seek out value available in periods up to 12 months, with highly credit rated financial institutions, using our suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information.

3.2 Investment rates available in the market have been broadly stable during the quarter and have continued at historically low levels as a result of the Funding for Lending Scheme. The average level of funds available for investment purposes during the quarter was £5.4m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

3.3 Investment performance for quarter ended 31st March 2014

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.34%	0.38	£5.360

As illustrated, the Council outperformed the benchmark by 0.2 bps. The Council's budgeted investment return for 2013/14 is £45,770 and performance for the year to date was £27,544 above budget.

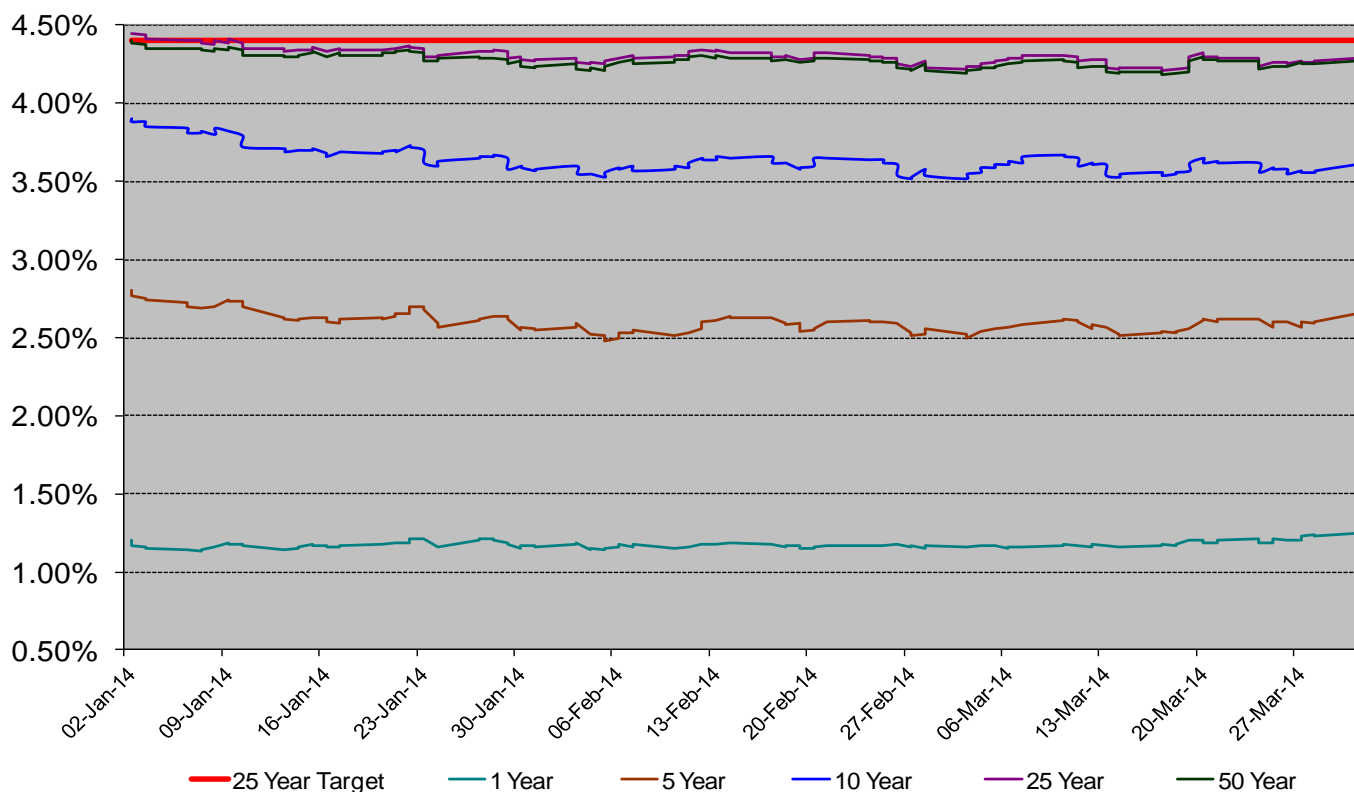
4.0 New Borrowing

4.1 The 25 year PWLB target (certainty) rate for new long term borrowing for the quarter remained at 4.40%.

4.2 No borrowing was undertaken during the quarter.

4.3 PWLB certainty rates, quarter ended 31st December 2013

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.13%	2.48%	3.52%	4.21%	4.18%
Date	07/01/2014	05/02/2014	27/02/2014	17/03/2014	17/03/2014
High	1.26%	2.80%	3.90%	4.45%	4.40%
Date	31/03/2014	02/01/2014	02/01/2014	02/01/2014	02/01/2014
Average	1.18%	2.60%	3.64%	4.31%	4.27%



4.4 To minimise investment risk, the Council has reduced external investments in lieu of new external borrowing. This was achieved by reducing the overall debt liability by repaying £5,000,000 of external debt. However, this policy will require ongoing monitoring in the event that upside risk to gilt yields prevails.

4.5 Borrowing in advance of need.

The Council has not borrowed in advance of need during the quarter ended 31st March 2014 and has not borrowed in advance in all of 2013/14.

5.0 Debt Rescheduling

5.1 Debt rescheduling opportunities have been limited in the current economic climate and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. During the quarter ended 31st March 2014, no debt rescheduling was undertaken.

6.0 Compliance with Treasury and Prudential Limits

6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

6.2 During the financial year to date the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury Indicators are shown in appendix 1.

7.0 Other

7.1 During 2013/14 the Council continued to maintain an under-borrowing position.

7.2 This under-borrowing reflects that the Council resources such as reserves and provisions will have reduced debt rather than be externally invested. This strategy is sensible, at this point in time, for two reasons. Firstly, there is no differential between the marginal borrowing rate and investment rate so there is nothing to be gained by investing Council resources externally. Secondly, by using the resources to reduce debt the Council will reduce exposure to investment counterparty risk.

Prudential and Treasury Indicators as at 31st March 2014

Treasury Indicators	2013/14 Budget £'000	Quarter 4 Actual £'000
Authorised limit for external debt	£84M	£67.3M
Operational boundary for external debt	£83M	£67.3M
Gross external debt	£84M	£67.3M
Investments	Nil	Nil
Net borrowing	£84m	£67.3M
Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	0% - 20%	31.9%
12 months to 2 years	0% - 20%	0%
2 years to 5 years	0% - 50%	21.3%
5 years to 10 years	0% - 50%	6.6%
10 years to 20 years *1	0% - 90%	13.6%
20 years to 30 years *1	0% - 90%	26.6%
30 years to 40 years *1	0% - 90%	0%
40 years to 50 years *1	0% - 90%	0%
Upper limit of fixed interest rates based on net debt *2		
Upper limit of fixed interest rates based on net debt *2	100%	55.6%
Upper limit of variable interest rates based on net debt *2		
Upper limit of variable interest rates based on net debt *2	100%	44.4%
Upper limit for principal sums invested for over 364 days		
Upper limit for principal sums invested for over 364 days	£2m	Nil

The indicator highlighted in red above has been exceeded in all quarters of 2013-14. The indicators have been corrected in the 2014/15 Treasury Management Strategy

Prudential Indicators	2013/14 Budget £'000	Quarter 4 Actual £'000
Capital expenditure *		
• HRA	£10.030M	£6.049
• GF	£7.209M	£4.283
Capital Financing Requirement (CFR) *		
• HRA	£62.750m	£60.036
• GF	£17.436m	£16.402
Annual change in CFR *	£5.021	-£0.262
In year borrowing requirement	NIL	£4.251
Incremental impact of capital investment decisions:-		
a) Increase in council tax (band change) per annum.	£2.41	N/A
b) Increase in precept for police, fire or other precepting authorities.	£0.00	N/A
c) Increase in average housing rent per week (housing authorities only).	£0.63	£2.76

Investment Portfolio

There were no Investments held as at 31st March 2014

1.0 Economic Background

- 1.1 After strong UK GDP growth of 0.7%, 0.8% and 0.7% in quarters 2, 3 and 4 respectively in 2013, it appears that strong growth will continue into 2014 as forward surveys are very encouraging. There are also positive indications that recovery is starting to broaden away from reliance on consumer spending and the housing market into construction, manufacturing, business investment and exporting. This strong growth has resulted in unemployment falling much faster towards the threshold of 7%, set by the MPC last August, before it said it would consider any increases in Bank Rate. In the February 2014 Inflation Report, the MPC therefore broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of indicators. Accordingly, markets are expecting a first increase around the end of 2014, though recent comments from MPC members have emphasised they would want to see strong growth well established, and an increase in labour productivity / real incomes, before they would consider raising Bank Rate.
- 1.1.1 Also encouraging has been the sharp fall in inflation (CPI), reaching 1.7% in February: forward indications are that inflation will continue to be subdued. The return to strong growth has also helped lower forecasts for the increase in Government debt by £73bn over the next five years, as announced in the Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a return to a significant budget surplus, (of £5bn), in 2018-19.
- 1.1.2 The Federal Reserve has continued with its monthly \$10bn reductions in asset purchases which started in December; asset purchases have now fallen from \$85bn to \$55bn and are expected to stop by the end of 2014, providing strong economic growth continues this year.

2.1 Interest Rate Forecast

The Council's treasury advisor, Capita Asset Services, has provided the following forecast:

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Bank rate	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.25%	1.50%	1.75%
5yr PWLB rate	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%
10yr PWLB rate	3.70%	3.70%	3.80%	3.80%	3.90%	3.90%	4.00%	4.10%	4.20%	4.30%	4.40%	4.50%	4.50%
25yr PWLB rate	4.40%	4.40%	4.50%	4.60%	4.70%	4.70%	4.80%	4.90%	5.00%	5.00%	5.10%	5.10%	5.10%
50yr PWLB rate	4.40%	4.50%	4.50%	4.60%	4.70%	4.80%	4.90%	5.00%	5.10%	5.10%	5.10%	5.20%	5.20%

Capita Asset Services undertook a review of its interest rate forecasts in February, after the Bank of England's latest quarterly Inflation Report. This latest forecast now includes a first increase in Bank Rate in quarter 4 of 2015 (previously quarter 2 of 2016), and reflects

greater caution as to the speed with which the MPC will start increasing Bank Rate than the current expectations of financial markets.

3.1 Summary Outlook

Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth rebounded during 2013 to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are currently very positive in indicating that growth prospects are also strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy was that wage inflation had been significantly below CPI inflation, so disposable income and living standards were being eroded, (although income tax cuts had ameliorated this to some extent). However, the recent fall in inflation has narrowed the gap between wage increases and inflation and this gap could narrow even more during this year, especially if there is also a recovery in growth in labour productivity (leading to significant increases in pay rates). With regard to the US, the main world economy, it faces similar debt problems to those of the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth, although labour force participation rates remain lower than ideal.

As for the Eurozone, concerns subsided considerably during 2013. However, sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy, (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed.

Detailed economic Commentary on developments during quarter ended 31st March 2014

During the first quarter of 2014:

- Indicators suggested that the economic recovery had retained its vigour;
 - Household spending rose again;
 - Inflation fell to its lowest level in over 4 years;
 - Unemployment edged closer to the MPC's 7% forward guidance 'phase one' threshold;
 - The MPC's revamped guidance appeared to keep market rates anchored;
 - The Budget indicated that the fiscal shackles remained firmly in place;
 - The US Federal Reserve continued with its monthly stimulus taper.
-
- After another strong quarterly expansion in UK GDP of 0.7% in Q4, some of the early indicators suggested that the economic recovery had retained its vigour into the first quarter. Admittedly, some of the survey data has come in a touch softer, but on the basis of past form, the CIPS/Markit business activity surveys still point to robust quarterly GDP growth in Q1. That being said, the survey data have overdone the strength of the recovery over recent months. January's industrial production figures suggested that the recovery in manufacturing output did not gather much pace from Q4's 0.5% q/q outturn. The 2.4% monthly fall in the volume of exports in January highlights that the recovery is still struggling to broaden out to the external sector.
 - Meanwhile, household spending may have made a decent contribution to GDP growth in Q1. Although it fell in January, the official measure of retail sales volumes rebounded by 1.7% in February. Despite the slightly weaker tone of March's CBI Distributive Trades Survey, over Q1 as a whole, it looks as if retailers enjoyed decent sales growth. On the basis of past form, the average reading of the reported sales balance is consistent with annual growth in the official measure of retail sales volumes of around 3%. The more forward-looking survey balances of expected sales also point towards a further pick-up in consumer spending in the near-term.
 - What's more, growth in sales off the high street has also been strong. For example, annual growth in new car registrations averaged around 17% in January and February, up from 12% in Q4. This all suggests that overall household spending may have strengthened.
 - Household spending growth has been supported by further improvement in the labour market. However, the jobs recovery has lost a little pace over recent months. Indeed, the 105,000 increase in employment between the three months to October and the three months to January was the smallest rise since July. Although the headline (three-month average) unemployment rate fell from 7.4% in October to 7.2% in January, this remained above November's recent low of 7.1%. As a result, the unemployment rate is still just above the 7% threshold as set out in 'phase one' of the Monetary Policy Committee's forward guidance.

- However, the MPC decided to tweak its forward guidance at the time of the February Inflation Report. Forward guidance 'phase two' contains no less than five elements: –
 - The MPC sets policy to achieve the 2% inflation target, and, subject to that, to support the Government's economic policies, including those for growth and employment.
 - Despite the sharp fall in unemployment, there remains scope to absorb spare capacity further before raising Bank Rate
 - When Bank Rate does begin to rise, the appropriate path so as to eliminate slack over the next two to three years and keep inflation close to the target is expected to be gradual (i.e. probably 25bp)
 - Even when the economy has returned to normal levels of capacity utilisation and inflation is close to the target, the appropriate level of Bank Rate is likely to be materially below the 5% level set on average by the Committee prior to the financial crisis.
 - The MPC will not sell any of the holding of £375bn of gilts before the first rise in Bank Rate

- All members voted in favour of this new guidance. That being said, divisions within the MPC regarding the amount of slack in the economy have opened up, with several members revealing their own personal 'best estimate' of the output gap in recent speeches, to spurious degrees of accuracy. The Bank's own estimate of the output gap is a range of between 1% to 1.5%.
- CPI inflation fell to 1.7% in February, the lowest rate since October 2009. Further increases in the value of sterling over the first quarter will exert downward pressure on import prices, which, combined with past falls in commodity prices, should mean that inflation continues to trend downwards. This all emphasises the fact that interest rates will be on hold for a long while yet.
- Meanwhile, fiscal policy is not set to ease any time soon. Indeed, the package of measures announced in the Budget in March were, broadly speaking, fiscally neutral. Admittedly, there were a few measures to help businesses and consumers, notably another increase in the annual investment allowance for businesses and in the personal income tax allowance, but these amount to small beer relative to the size of the overall fiscal tightening yet to come. The OBR's forecasts for borrowing were not materially revised from those in the Autumn Statement, indicating that the Chancellor is still expected to meet his primary fiscal mandate – to return the cyclically-adjusted current budget to balance over a rolling five-year period – a year early.
- Mr Osborne also refrained from bowing to pressure to take the heat out of the housing market. In fact, he added further support to the flagship Help to Buy Scheme by extending the first phase, (the equity loan part), until 2020, though the more controversial mortgage-guarantee part of the scheme was left untouched. The latest housing market data will have done little to alleviate fears of a bubble. Prices rose at an annual rate of 10.2% and 9.2% in February according to the Halifax and Nationwide measures, respectively. Admittedly, the fall in the new buyer enquiries balance of February's RICS survey suggests that demand may be beginning to wane. But the new sales instructions balance fell further into negative territory. On

the basis of past form, the difference between these two balances points to house prices continuing to rise strongly in the near-term.

- Internationally, the US Fed made tweaks to its own forward guidance in March, when it dropped its explicit unemployment rate threshold in favour of a more qualitative form of forward guidance. Although economic activity was weakened by adverse weather, the Federal Open Market Committee (FOMC), decided to continue with its monthly reduction in stimulus taper; reducing asset purchases by a further \$10bn to \$55bn per month, (originally \$85bn). Markets also brought forward their expectations for the timing of the first rise in interest rates from around the end of 2015, to mid-2015 as a result of upward revisions to the Fed's interest rate projections. In the Fed Chair Janet Yellen's comments in the post-FOMC meeting press conference, she suggested that the "considerable period" language used for forward guidance, (for rates remaining low), could be interpreted as meaning that rates might begin to rise six months or so after the Fed ends its monthly asset purchases: this caused a sell-off in US equity markets.
- Activity indicators for the Eurozone continue to suggest that the currency bloc is recovering, albeit very slowly. The economy expanded by 0.3% in Q4, following a mere 0.1% quarterly expansion in Q3. Survey data, such as the PMIs, suggest that the recovery may not have gathered much pace in Q1. Moreover, the spectre of deflation continues to hang over the region. Average Eurozone HICP inflation was 0.8% in February, well below the ECB's target of below, but close to, 2%. However, this average meant that some individual countries were experiencing deflation which is particularly unhelpful for heavily indebted countries, and especially for those also struggling with low or negative growth. The large amount of spare capacity in the Eurozone economy, combined with further increases in value of the euro, suggest that disinflationary pressures are unlikely to go away soon. Accordingly, the ECB may be forced to act soon to prevent the crisis from reigniting.
- Meanwhile, domestic equities performed poorly over the quarter as a whole, with the FTSE falling by 2% to around 6615, compared to a rise of 0.5% in the S&P 500. Emerging markets were undermined by the tapering of Fed purchases which has led to a marked flow of funds back out of emerging markets to western economies due to the better prospects for growth in the latter. Financial markets were also rattled by concerns about the fallout from political troubles surrounding Ukraine and by renewed worries about credit conditions and a slowdown in economic growth in China. The MSCI Emerging Market Local Currency Index has fallen by 1.1% since the turn of the year. These fears have led to a return of volatility and some renewal of safe haven flows from equities to bonds; developed country bond markets have, therefore, rallied, with gilt yields and treasury yields both falling by over 30bp since the start of 2014.

Detailed commentary on interest rate forecasts

THE UK ECONOMY

Economic growth. Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth strongly rebounded in 2013 - quarters 1, 2, 3 and 4 being respectively +0.3%, +0.7%, +0.8% and +0.7%, to surpass all expectations as all three main sectors, services, manufacturing and construction contributed to this strong upturn. The Bank of England, therefore, upgraded growth forecasts in the August and November quarterly Inflation Reports for 2013 from 1.2% to 1.6% and it actually ended up at 1.9%. For 2014, its forecasts were upgraded respectively from 1.7% to 2.8%, and then in the February report to 3.4% (2015 2.7%, 2016 2.8%).

The February Report stated that: -

The UK recovery has gained momentum and inflation has returned to the 2% target. Reduced uncertainty, easier credit conditions and the stimulative stance of monetary policy should support continued solid economic growth, with the expansion in demand becoming more entrenched and more broadly based. Robust growth has not so far been accompanied by a material pickup in productivity. Instead, employment gains have been exceptionally strong and unemployment has fallen much more rapidly than expected. The LFS headline unemployment rate is likely to reach the MPC's 7% threshold by the spring of this year. Even so, the Committee judges that there remains spare capacity, concentrated in the labour market.

Inflation is likely to remain close to the target over the forecast period. Given this, and with spare capacity remaining, the MPC judges that there remains scope to absorb slack further before raising Bank Rate. Moreover, the continuation of significant headwinds — both at home and from abroad — mean that Bank Rate may need to remain at low levels for some time to come.

Forward surveys are currently positive in indicating that growth prospects are also strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy during 2013 was that wage inflation was running significantly below CPI inflation so disposable income and living standards were being eroded, although income tax cuts did ameliorate this to some extent. However, with the recent fall in inflation and slight improvement in wage inflation, the gap between the two has narrowed significantly and looks likely to narrow further during 2014 as slack in the labour market declines. However, the Bank is concerned to see labour productivity improve as it is this which will warrant paying higher wages and promote sustainable economic growth. One factor that could delay the start of Bank Rate increases is if the significant appreciation in the value of sterling that has occurred, (about 10% since early 2013), were to continue through 2014 and beyond; this would be likely to inhibit UK GDP growth through a fall in UK exports, (as they become more expensive), and an increase in imports, which become cheaper and so suppress UK consumer purchases of UK made goods and services.

Forward guidance. The Bank of England issued forward guidance in August which said that the Bank will not start to consider raising interest rates until the jobless rate (Labour Force Survey / ILO i.e. not the claimant count measure) has fallen to 7% or below. This would require the creation of about 750,000 jobs and was forecast to take three years in August. Due to the rebound in economic growth, this unemployment rate has fallen much faster than expected and so in the February Inflation Report, forward guidance was amended (see appendix 3).

Credit conditions. While Bank Rate has remained unchanged at 0.5% and quantitative easing has remained unchanged at £375bn in 2013/14, the Funding for Lending Scheme (FLS) was extended to encourage banks to expand lending to small and medium size enterprises. The second phase of Help to Buy aimed at supporting the purchase of second hand properties, started in earnest in January 2014. These measures have been so successful in boosting the supply of credit for mortgages, and so of increasing house purchases, (though levels are still below the pre-crisis level), that the Bank of England announced at the end of November that the FLS for mortgages would end in February 2014. While there have been concerns that these schemes are creating a bubble in the housing market, house price increases outside of London and the south-east have been more subdued. However, bank lending to small and medium enterprises continues to remain weak and inhibited by banks still repairing their balance sheets and anticipating tightening of regulatory requirements.

Inflation. Inflation has fallen from a peak of 3.1% in June 2013 to 1.7% in February. It is expected to remain near to the 2% target level over the MPC's two year time horizon.

AAA rating. The UK has lost its AAA rating from Fitch and Moody's but that caused little market reaction.

THE GLOBAL ECONOMY

The Eurozone (EZ). The sovereign debt crisis eased considerably during 2013 which has been a year of comparative calm after the hiatus of the Cyprus bailout in the spring. In December, Ireland escaped from its three year EZ bailout programme as it had dynamically addressed the need to substantially cut the growth in government debt, reduce internal price and wage levels and promote economic growth. Portugal is currently hoping to also leave the EZ bailout programme in the near future. However, Greece is still embroiled in arguments with the EU and IMF over further austerity measures to return its public finances to balance within a reasonable time period.

As for economic growth, the EZ finally escaped from seven quarters of recession in quarter 2 of 2013 (+0.1%) but growth remained weak in quarter 3 (+0.1%) and quarter 4 (+0.3%) and is likely to remain weak and so will dampen UK growth. The ECB's pledge to buy unlimited amounts of bonds of countries which ask for a bail out, has provided heavily indebted countries with a strong defence against market forces. This has bought them time to make progress with their economies to return to growth or to reduce the degree of recession. However, debt to GDP ratios (Q3 2013 figures) of Greece 172%, Italy 133%, Portugal 129%, Ireland 125% and Cyprus 110%, remain a cause of concern, especially as many of these countries are experiencing continuing rates of increase in debt in excess of their rate of economic growth i.e. these debt ratios are continuing to deteriorate. Any sharp downturn in economic growth would make these countries particularly vulnerable to a new bout of sovereign debt crisis. It should also be noted that Italy has the third biggest debt mountain in the world behind Japan and the US. Greece remains particularly

vulnerable and continues to struggle to meet EZ targets for fiscal correction. Whilst a Greek exit from the Euro is now improbable in the short term, as Greece has made considerable progress in reducing its annual government deficit and a return towards some economic growth, some commentators still view an eventual exit as being likely. There are also concerns that austerity measures in Cyprus could also end up in forcing an exit. The question remains as to how much damage an exit by one country would do and whether contagion would spread to other countries. However, the longer a Greek exit is delayed, the less are likely to be the repercussions beyond Greece on other countries and on EU banks.

Sentiment in financial markets improved considerably during 2013 as a result of firm Eurozone commitment to support struggling countries and to keep the Eurozone intact. However, the foundations to this current "solution" to the Eurozone debt crisis are still weak and events could easily conspire to put this into reverse. There are particular concerns as to whether democratically elected governments will lose the support of electorates suffering under EZ imposed austerity programmes, especially in countries like Greece and Spain which have unemployment rates of over 26% and unemployment among younger people of over 50%. The Italian political situation is also fraught with difficulties in maintaining a viable coalition which will implement a rigorous austerity programme and undertake overdue reforms to government and the economy. There are also concerns over the lack of political will in France to address issues of poor international competitiveness.

USA. The economy grew by 1.9% in 2013 (2012 2.8%), which was a reasonable result in spite of the fiscal cliff induced sharp cuts in federal expenditure that kicked in on 1 March, and increases in taxation. Quarterly (annualised) growth rates for 1, 2, 3 and 4 in 2013 were respectively +1.1%, +2.5%, +4.1% and 2.6%. The second-half growth pace was a stellar 3.3 percent and a jump from 1.8 percent in the first six months of the year. The Fed therefore decided in December to start reducing its \$85bn per month asset purchases programme of quantitative easing by \$10bn and these monthly decreases continued during quarter 1 2014. This is likely to mean that all monthly asset purchases will cease by the end of 2014. In December, the Fed also amended its forward guidance on its pledge not to increase the central rate until unemployment falls to 6.5% by adding that there would be no increases in the central rate until 'well past the time that the unemployment rate declines below 6.5%, especially if projected inflation continues to run below the 2% longer run goal'. The head of the Fed, Janet Yellen, in late March, said that the first increase in interest rates was likely to occur about six months after the end of asset purchases. Consumer, investor and business confidence levels all improved markedly in 2013. The housing market has turned a corner and house sales and increases in house prices have returned to healthy levels. Many house owners have, therefore, been helped to escape from negative equity and banks have also largely repaired their damaged balance sheets so that they can resume healthy levels of lending. All this portends well for a reasonable growth rate looking forward.

China. There are concerns that Chinese growth could be on an overall marginal downward annual trend. There are also concerns that the new Chinese leadership have only started to address the issues of an unbalanced economy which is heavily dependent on new investment expenditure, and for a potential bubble in the property sector to burst, as it did in Japan in the 1990s, with its consequent impact on the financial health of the banking sector. There are also concerns around the potential size, and dubious creditworthiness, of some bank lending to local government organisations and major corporates. This primarily occurred during the government promoted expansion of credit,

which was aimed at protecting the overall rate of growth in the economy after the Lehmans crisis.

Japan. The initial euphoria generated by “Abenomics”, the huge QE operation instituted by the Japanese government to buy Japanese debt, has tempered as the follow through of measures to reform the financial system and the introduction of other economic reforms, appears to have stalled. However, at long last, Japan saw a return to reasonable growth and positive inflation during the first half of 2013 which augured well for the hopes that Japan could escape from the bog of stagnation and deflation and so help to support world growth. However, quarterly growth slowed to only +0.3% in quarter 4 of 2013 and an increase in sales tax from 5% to 8% due in April 2014 could dampen growth further. Overall, growth improved from +1.4% in 2012 to +1.6% in 2013. The fiscal challenges though are huge; the gross debt to GDP ratio was about 245% in 2013 while the government is currently running an annual fiscal deficit of around 50% of total government expenditure. Within two years, the central bank will end up purchasing about Y190 trillion (£1,200 billion) of government debt. In addition, the population is ageing due to a low birth rate and, on current trends, will fall from 128m to 100m by 2050.

CAPITA ASSET SERVICES FORWARD VIEW

Economic forecasting remains difficult with so many external influences weighing on the UK. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets i.e. equities, and safer bonds.

There could well be volatility in gilt yields over the next year as financial markets react to further tapering of asset purchases by the Fed. and the impending start of a new economic cycle of gradually rising interest rates. During quarter 1 2014, fears rose over emerging market countries, especially Argentina due to the chronic mismanagement of the economy. There were also fears over Turkey and Brazil. A further bout of fear was unleashed through the developing political situation in Ukraine, especially over Russian intervention in the Crimea. These fears stimulated safe haven flows from equities into bonds and so the quarter saw a fall in bond yields. Political events could therefore have a potentially powerful effect looking forward.

The overall longer run trend is for gilt yields and PWLB rates to rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will further encourage investors to switch back from bonds to equities.

The overall balance of risks to economic recovery in the UK is currently evenly weighted. However, only time will tell just how long this period of strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.

The interest rate forecasts in this report are based on an initial assumption that there will not be a major resurgence of the EZ debt crisis, or a break-up of the EZ, but rather that there will be a managed, albeit painful and tortuous, resolution of the debt crisis where EZ institutions and governments eventually do what is necessary - but only when all else has been tried and failed. Under this assumed scenario, growth within the EZ will be tepid for the next couple of years and some EZ countries experiencing low or negative growth, will, over that time period, see a significant increase in total government debt to GDP ratios. There is, therefore, also a significant danger that these ratios could rise to the point where markets lose confidence in the financial viability of one, or more, countries. However, it is impossible to forecast whether any individual country will lose such confidence, or when,

and so precipitate a resurgence of the EZ debt crisis. While the ECB has adequate resources to manage a debt crisis in a small EZ country, if one, or more, of the large countries were to experience a major crisis of market confidence, this would present a serious challenge to the ECB and to EZ politicians.

Downside risks currently include:

- UK strong economic growth is currently very dependent on consumer spending and recovery in the housing market. This is unlikely to endure much beyond 2014 as most consumers are maxed out on borrowing and wage inflation needs to increase above CPI inflation, so that disposable income can start to increase and so support a sustainable increase in consumer spending.
- A weak rebalancing of UK growth to exporting and business investment causing a major weakening of overall economic growth beyond 2014
- Weak growth or recession in the UK's main trading partners - the EU and US, depressing economic recovery in the UK.
- A return to weak economic growth in the US, UK and China causing major disappointment in investor and market expectations.
- A resurgence of the Eurozone sovereign debt crisis caused by ongoing deterioration in government debt to GDP ratios to the point where financial markets lose confidence in the financial viability of one or more countries and in the ability of the ECB and Eurozone governments to deal with the potential size of the crisis.
- The potential for a significant increase in negative reactions of populaces in Eurozone countries against austerity programmes, especially in countries with very high unemployment rates e.g. Greece and Spain, which face huge challenges in engineering economic growth to correct their budget deficits on a sustainable basis.
- The Italian political situation is challenging; there is an urgent need for a political consensus that can implement a programme of austerity measures and long overdue reforms. Italy has the third highest government debt mountain in the world.
- Problems in other Eurozone heavily indebted countries could also generate safe haven flows into UK gilts, especially if it looks likely that one, or more countries, will need to leave the Eurozone.
- A lack of political will in France, (the second largest economy in the EZ), to dynamically address fundamental issues of low growth, poor international uncompetitiveness and the need for overdue reforms of the economy.
- Monetary policy action failing to stimulate sustainable growth in western economies, especially the Eurozone and Japan.
- Geopolitical risks e.g. Syria, Iran, North Korea, which could trigger safe haven flows back into bonds.

The potential for upside risks to UK gilt yields and PWLB rates, especially for longer term PWLB rates include: -

- A sharp upturn in investor confidence that sustainable robust world economic growth is firmly expected, causing a surge in the flow of funds out of bonds into equities.
- A reversal of Sterling's safe-haven status on a sustainable improvement in financial stresses in the Eurozone.
- UK inflation being significantly higher than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.
- In the longer term – an earlier than currently expected reversal of QE in the UK; this could initially be implemented by allowing gilts held by the Bank to mature without reinvesting in new purchases, followed later by outright sale of gilts currently held.

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Meeting:	Audit & Governance Committee	Date:	26 June 2014
Subject:	Annual Governance Statement 2013/14		
Report Of:	Director of Resources on behalf of the Corporate Governance Group		
Wards Affected:	All		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Peter Gillett, Director of Resources		
	Email: Peter.Gillett@gloucester.gov.uk	Tel:	396400
Appendices:	1. Annual Governance Statement		

1.0 Purpose of Report

1.1 To advise Members of the requirement to prepare, and approve, an Annual Governance Statement.

2.0 Recommendations

2.1 Audit & Governance Committee is asked to **RESOLVE** that the Annual Governance Statement for 2013-14 be approved.

3.0 Background and Key Issues

3.1 The Accounts and Audit Regulations 2011 (“the Regulations”) require the Council to conduct a review, at least once each year, of the effectiveness of its system of internal control. The findings of the review must be considered by the members of the body meeting as a whole or by a committee. At the Council, the Audit and Governance Committee is the committee with responsibility for this review.

3.2 The Regulations further state that, following this review, the Committee must approve an annual governance statement (AGS) and ensure that this statement accompanies the Statement of Accounts. The AGS must be signed by the Head of Paid Services and the Leader of the Council

3.3 The 2013-14 Annual Governance Statement (AGS) has been prepared by the Corporate Governance Group and is based on best practice guidelines issued by the CIPFA Finance Advisory Network. It includes an Action Plan detailing the significant governance issues identified, together with actions to be undertaken during 2014-15 to improve the overall governance arrangements. These have been identified from a review of compliance with the Council’s Local Code of Corporate Governance and other review/assurance mechanisms such as the Assurance Statements completed by Corporate Directors and Heads of Service.

3.4 Governance comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

3.5 Actions arising from the 2012-13 Annual Governance Statement Action Plan have either been addressed or continue to be implemented.

4.0 Alternative Options Considered

4.1 There are no alternative options that are relevant to this matter.

5.0 Reasons for Recommendations

5.1 The Council is required to produce an annual governance statement under Regulation 4 of the Accounts and Audit Regulations 2011 and, under the Council's Constitution, the Audit and Governance Committee has responsibility for approving the Statement. The Corporate Governance Group has prepared the statement in accordance with best practice guidelines and taking into account matters relevant to the 2013-14 year.

6.0 Future Work and Conclusions

6.1 A monitoring report on the achievement of the Action Plan will be presented to Audit Committee members at the next meeting in September 2014.

7.0 Financial Implications

7.1 There are no direct financial implications.

(Financial Services have been consulted in the preparation this report.)

8.0 Legal Implications

8.1 The Accounts and Audit Regulations 2011 require the Council to conduct a review, at least once each year, of the effectiveness of its system of internal control and to publish a statement on internal control each year with its financial statements.

(Legal Services have been consulted in the preparation this report.)

9.0 Risk & Opportunity Management Implications

9.1 Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It is important to recognise that the purpose of the annual governance statement is not just to be 'compliant', but also to provide an accurate representation of the arrangements in place during the year and to highlight those areas where improvement is required.

10.0 People Impact Assessment (PIA):

10.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, there a full PIA was not required.

11.0 Other Corporate Implications

Community Safety

- 11.1 There are no specific Community Safety implications arising from the recommendation in this report.

Sustainability

- 11.2 There are no specific Sustainability implications arising from the recommendation in this report.

Staffing & Trade Union

- 11.3 There are no specific Staffing and Trade Union implications arising from the recommendation in this report.

Background Documents: None

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ANNUAL GOVERNANCE STATEMENT

Review of 2013/14 and Actions Required in 2014/15

ANNUAL GOVERNANCE STATEMENT

1.0 Scope of responsibility

- 1.1 Gloucester City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. Gloucester City Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, Gloucester City Council is responsible for putting in place proper arrangements for the governance of its affairs, to facilitate the effective exercise of its functions.
- 1.3 Gloucester City Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website at www.gloucester.gov.uk, is included in the Council's Constitution (Part 5 – Codes & Protocols), or can be obtained from the Council's Audit, Risk & Assurance Manager or the Monitoring Officer. This statement explains how Gloucester City Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement.

2.0 The purpose of the governance framework

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and it's the activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Gloucester City Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at Gloucester City Council for the year ended 31st March 2014, and up to the date of approval of the Statement of Accounts.

3.0 The governance framework

- 3.1 Governance is about how the Council ensures it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 3.2 The Council has adopted a Local Code of Corporate Governance that is based around a number of key principles. These principles are identified below, together with a commentary on the current level of organisational compliance.

4.0 Focus on the purpose of the authority and on outcomes for the community and creation and implementation of a vision for the local area

- 4.1 The Council's major policy objectives in 2013/14 were detailed as part of the corporate plan, entitled 'Transforming Your City'. This Plan, is a 4 year plan (2011-2014) designed as a framework for delivering Gloucester's future, reflecting the unique nature of the city's character and the challenges faced by the Council.
- 4.2 The three key priorities of the Plan are:
1. Prosperity – Strengthening Gloucester's Economy
 2. People – A City for Everyone
 3. Place – Creating Pride in Our City

These three key priorities are underpinned by the following four principles:-

- Leadership – We will provide strong, ambitious and enthusiastic leadership, putting the interests of the city first and we will act in an open and transparent way.
- Sound Finance – We will strive for value for money and only spend what we can afford.
- Your Services – We will strive for top-performing services, built around you the customer, in partnership with the public, private and voluntary sectors.
- People – We will consult and engage with the community to help shape the decisions we take, giving everyone a voice and looking after the most vulnerable in society.

- 4.3 The Council's major policy objectives, as detailed in 'Transforming Your City' were approved by Full Council at a meeting held on 24th March 2011. A copy of the 'Transforming Your City' Council Plan 2011-2014 can be found on the Council's website www.gloucester.gov.uk

- 4.4 In order to ensure that progress is being made against the aims and objectives detailed in the Corporate Plan, monthly performance reports are produced to highlight achievements and address any challenges. These reports were reviewed during the year by the Chief Executive, Directors (SMT), and Members.
- 4.5 An end of year, annual performance report was presented to SMT on 10th June 2014 and was presented to Cabinet on 15th May 2013.??????
- 4.6 The Council Plan 2014-2017 was presented to Council on 8th April 2014 for comments and further recommendations, with a view to the final version being considered by full Council on 17 July 2014.
- 4.7 The Forward Plan contains matters which will be the subject of a 'key decision' and 'decisions relating to the Budget and Policy Framework'. In the interests of transparency, it also includes matters which are non-key decisions. Proposals relevant to the Budget and Policy Framework are subject to a period of consultation and the Overview and Scrutiny Committee has the opportunity to respond in relation to the consultation process. Forward Plans are prepared by the Leader of the Council, and cover a rolling period of twelve months. They are prepared on a monthly basis and subsequent plans cover a period beginning with the first day of the second month covered in the preceding plan. A copy of the Forward Plan is also published on the Council's web site.
- 4.8 In order to provide services to meet the needs of the community, the Council needs to obtain the views of those being served. This will allow the Council – and Members – to provide sound evidence for the decisions that are made, as well as enabling redirection of resources where necessary. In June 2013, Cabinet agreed to the introduction of a new system to aid the gathering of customer feedback on service delivery, at the point of interaction.
- 5.0 Members and officers work together to achieve a common purpose with clearly defined functions and roles**
- 5.1 Members are responsible to the electorate and serve as long as their term of office lasts. Officers are responsible to the authority and carry out the Council's work under the direction of the Council, Executive and Committees.
- 5.2 The relationship between Councillors and officers is essential to the successful working of the Council. This relationship within the authority is characterised by mutual respect, informality and trust. The Council has adopted a 'Councillor – Officer Relations' protocol to help councillors and officers perform effectively by giving guidance on their respective roles and expectations, and, on their relationship with each other.
- 5.3 In December 2013, the City Council was subject to a corporate peer challenge process facilitated by the LGA as part of the Council's commitment to ongoing improvement. Peer challenges are improvement orientated and designed to complement the Council's own performance and improvement plans. A copy of the Corporate Peer Challenge report can be found on the Council's website (www.gloucester.gov.uk). An action plan is being developed by Members and

officers to implement the recommendations made in the Peer Challenge report and there has already been progress made on some of the recommendations.

- 5.4 The Council has adopted a Scheme of Delegation detailing the delegation of responsibilities and functions to the Council, Cabinet, individual Cabinet Members, Committees, and officers.
- 5.5 Under the Local Authorities (Members Allowances) (England) Regulations 2003, local authorities are required to have in place a scheme which sets out payments of allowances to councillors. The City Council formally adopts its allowances scheme for the forthcoming year at Annual Council. The Scheme for 2013-14 , which was based on recommendations by an independent “Members Remuneration” panel, was adopted by the Council in May 2013..
- 5.6 Under Section 38 of the Localism Act 2011, the Council must approve and publish a senior pay policy statement before the start of the financial year to which it applies. The Council is expected to keep the statement under review and publish a new version each year. The Senior Pay Policy Statement for 2013/14 was approved by Council in May 2013..
- 6.0 Promote values for the authority and demonstrate the values of good governance through the upholding of high standards of conduct and behaviour.**
- 6.1 The Council has adopted codes of conduct for Members and Officers. The code of conduct for Members was amended during 2012/13 to take account of changes required by the Localism Act 2011. The revised Member Code of Conduct was approved by Council in July 2012. No complaints about breach of the Member Code of Conduct were received during 2013-14 .
- 6.2 Staff are also expected to maintain high standards of behaviour at all times. The standards of behaviour and other related matters are set out in an officer Code of Conduct which is based on a national model. A copy of this Code is contained in the Council’s Constitution. The Council’s Constitution also contains a number of protocols in respect of Member/Officer and Member/Member relations, and a whistle-blowing policy for employees.
- 6.3 The Council has a complaints procedure that enables dissatisfied members of the public to raise concerns. The Council views all comments, whether they are complaints or compliments, as a valuable way of collecting continual feedback about services and identifying how it can improve the services it provides. Complainants may also refer matters to the local government ombudsman for investigation once they have been through the Council’s complaint system if they are dissatisfied with the Council’s response. The Council’s Audit and Governance Committee receives an annual report on complaints and compliments monitoring.
- 7.0 Take informed and transparent decisions, which are subject to effective scrutiny and managing risk.**
- 7.1 The Council is committed to efficient and effective decision-making and for ensuring that those responsible for decision-making are clearly identifiable to local people and that the decision-makers explain the reasons for their decisions.

- 7.2 In accordance with the statutory requirement, the Council has established an overview and scrutiny function. The Overview and Scrutiny function is a central element of the Council's aims and objectives and a key part of the democratic structure. The Overview and Scrutiny Committee meets in public to discuss and make recommendations on the development of policies and to hold the Cabinet and Cabinet Members to account for both their actions and performance.
- 7.3 The Council's Democratic Services section maintains the up to date Register of Members' Interests on behalf of the Monitoring Officer and also ensures that Members are reminded at least annually to update their record. Declarations of Interest are a standard agenda item for each main Committee meeting. The requirement for staff to declare interests is included in the Officers' Code of Conduct – Council Constitution Part 5, Codes and Protocols.
- 7.4 Risk Management is essentially about good management practice and effective decision making. It can be defined as:
- 'A logical and systematic method of establishing the context, identifying, analysing, evaluating, treating monitoring and communicating risks associated with any activity, function or process in a way that will enable organisations to minimise losses and maximise opportunities'.
- 7.5 The Council recognises that all aspects of business risk must be managed. The Council has a Risk Management Strategy, the purpose of which is to provide a framework for the effective management of risks within the authority. The Strategy was last reviewed in March 2012, and is due to be reviewed again in October 2014 . It contains the objectives of the strategy, linked to the Council's key aims, and guidance on the risk management cycle and scoring of risks.
- 7.6 The Senior Management Team and the Leader and Cabinet are responsible for reviewing the Council's Strategic Risk Register. Since January 2013, the Strategic Risk Register has become a standard agenda item for the joint monthly meetings between SMT and Senior Managers to ensure any risks associated with the Council's aims and objectives have been identified and are being managed . A review of the Strategic Risk Register was also undertaken by the Leader of the Council in April 2014.
- 7.7 The Council has established an Audit and Governance Committee. The Terms of Reference for this Committee were revised during the year as a result of the revised guidance issued by CIPFA entitled "Audit Committees – practical guidance for Local Authorities and Police, 2013 Edition. .
- 7.8 The Head of Legal and Policy Development & Monitoring Officer identifies any forthcoming relevant legislation and, together with the relevant Director, is responsible for ensuring that the Cabinet is appraised of the implications and what action the Council may need to take.

7.9 The Council has an agreed Whistleblowing policy under which members of staff may raise any concerns. Following a recommendation by the Audit & Governance Committee, a review of the Whistleblowing policy was undertaken in June 2013.

8.0 Develop the capacity and capability of members and officers to be effective.

8.1 The Council has the Investor in People (IIP) award, which is a national standard that sets a level of good practice for the training and development of people to achieve business goals.

8.2 Access to Member Development is a key element of the Local Code of Corporate Governance. From the Annual Council meeting in May 2012, the Constitutional and Electoral Working Group became responsible for reviewing, developing and setting the Council's Member development programme. An ongoing programme of Member development was agreed by the Group on 12 March 2013. Member training in 2013/14 included the following:

- A 'Know Your Service' Day held on 25 October 2013
- Various seminars and briefings on the Joint Core Strategy
- Risk Management Workshop
- Social Media Training

8.3 In total 13 training courses were provided by the Council in 2013/14, including refresher training for Planning and Licensing. Attendance at training sessions is variable, with some sessions being cancelled due to lack of interest. Higher attendance levels remain desirable.

9.0 Engage with local people and other stakeholders to ensure robust public accountability.

9.1 Council, Cabinet and Committee meetings are open to the public with agendas and minutes being publicly available. Members of the public are able to ask questions at such meetings and, with effect from 27 March 2014, the Council has decided to allow the public to record its public meetings. A protocol setting out the Council's rules on recording has been adopted and is contained in the Council's Constitution.

9.2 The Council publishes a leaflet with its Council Tax demands which summarises financial performance and, at the end of each financial year, publishes its Statement of Accounts. A comprehensive annual budget consultation process is also undertaken with residents, voluntary sector groups and local businesses.

9.3 The Council has agreed and published a petitions scheme which details guidance and procedures for the way in which it deals with petitions from members of the public which may include a debate at Council or the matter being considered by the Cabinet, appropriate Committee, or a Forum.

9.4 In order to increase transparency and accountability in local government, central government introduced a legal requirement for councils to report upon the remuneration of senior employees. This information was published as part of its annual accounts. The Council's comprehensive Pay Policy Statement for 2013-14 was also approved by full Council on 20th May 2013 .

- 9.5 The Council has a strong track record of partnership working with the public, private and voluntary sectors. It has established: an arms length management organisation, Gloucester City Homes (GCH), to manage, maintain and improve the council housing stock, a charitable trust, Aspire Sports and Cultural Trust, to manage its leisure services, a separate legal entity, Marketing Gloucester Ltd, to promote the City, and, has entered into two strategic partnership contracts with the private sector for the provision of Streetcare services (street cleansing, waste collection, grounds maintenance and public conveniences), and the delivery of Revenues and Benefits services. In May 2014, the Council entered into a further partnership contract with Civica for the provision of IT services.
- 9.6 Monitoring arrangements for the major partnerships are delivered through a combination of client/contractor meetings, the Senior Management Team and members (Cabinet and/or Overview and Scrutiny Committee).

10.0 Review of effectiveness

- 10.1 Gloucester City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior management team within the authority who have responsibility for the development and maintenance of the governance environment, the annual report of the Audit, Risk & Assurance Manager, and also by reports issued by the Council's external auditors and other review agencies and inspectorates.
- 10.2 The process that has been applied in maintaining and reviewing the effectiveness of the governance framework are as follows:-

11.0 The Council

- 11.1 The Council has adopted a Constitution that controls how the Council is structured and the decision-making procedure laid out in the Constitution details the procedures designed to support open and accountable decision-making. During 2013/14, a number of further changes to the Constitution were made, and agreed by Council, to ensure it remained up to date. A copy of the Constitution can be found on the Council's website at www.gloucester.gov.uk.

12.0 The Cabinet

- 12.1 The Council determines the budgetary and policy framework. The principal decision-making body is the Cabinet (Executive). The Cabinet took all Key Decisions in 2013/14. Key Decisions are subject to pre-scrutiny by the Overview & Scrutiny Committee.
- 12.2 The key statutory document that sets the agenda for a rolling programme of future key decisions is the Forward Plan; hence this is a critical factor in the Council's overall decision-making process.
- 12.3 Executive decisions taken by Cabinet and individual Cabinet Members are published and may be subject to a call-in process for examination by the Overview & Scrutiny Committee.

13.0 The Audit and Governance Committee

- 13.1 Good corporate governance requires independent, effective assurance about both the adequacy of corporate, operational and financial management and reporting, and the management of other processes required to achieve the organisation's corporate and service objectives. Effective audit committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors.
- 13.2 The Terms of Reference for the audit and governance elements of the Audit and Governance Committee cover the core functions of an audit committee as identified in the CIPFA guidance 'Audit Committees – Practical Guidance for Local Authorities, and revised during the year to reflect the CIPFA guidance (2013 Edition) entitled 'Audit Committees – Practical Guidance for local Authorities and Police . . .
- 13.3 The Council's committee, whose role is to promote and maintain high standards of conduct by Councillors and co-opted Members, is the Audit and Governance Committee. A review of the operation of the Council's standards arrangements was considered by the Audit and Governance Committee on 24th June 2013.

14.0 Overview and Scrutiny Committee

- 14.1 As part of the Council's Overview and Scrutiny arrangements, it was agreed that the Overview and Scrutiny Committee would 'provide and co-ordinate the input to an annual report to Full Council on such issues or topics as the Committee saw fit'. The Annual Report setting out the work and achievements of the Council's Overview and Scrutiny function during 2012/13 was reported to Council on 18th July 2013.
- 14.2 The Committee used an annual work programme to manage the business of the Committee during 2013/14 and there was an agreed programme of reviews to be carried out by Task & Finish Groups, with regular reporting on progress being made to the full Committee.

15.0 Internal Audit

- 15.1 Internal Audit is a legislative requirement of the Accounts and Audit (England) Regulations 2011. This requires the authority to undertake an adequate and effective internal audit of its accounting records and of its system of internal control.
- 15.2 Gloucester City Council (GCC) and Stroud District Council (SDC) have formed the Gloucestershire Audit & Assurance Partnership (**G A A P**) in order to deliver a professional, cost effective, efficient internal audit function to the partner organisations. The provision of the Internal Audit Service is by a team consisting of

6 staff; 3 based at GCC and 3 based at SDC. In addition, the team is managed by the Head of Partnership, who is the GCC Audit, Risk & Assurance Manager.

- 15.3 The 2011 Accounts and Audit Regulations also require the authority to review the effectiveness of its internal audit function at least once a year, and that the findings of this review should be included in the Annual Governance Statement.
- 15.4 This review consisted mainly of a self-assessment against the Public Sector Internal Audit Standards, and the results were reviewed by the Council's Corporate Director of Resources, and will be reported to the Council's Audit & Governance Committee in June 2014 . The overall conclusion from the review was that internal audit at GCC is effective. Although the self-assessment identified a number of 'gaps' in compliance with the Public Sector Internal Audit Standards , these do not materially effect the reliance the Council can place on the Audit, Risk & Assurance Manager's opinion on the adequacy of the control environment.
- 15.5 Internal Audit work is carried out to the standards outlined in the Public Sector Internal Audit Standards' (the Code). The Code requires the Head of Internal Audit to 'provide a written report to those charged with governance timed to support the Annual Governance Statement'. The 2013-14 report by the Audit, Risk & Assurance Manager concludes:-

"My overall opinion is that a satisfactory level of assurance can be given that there is generally a sound system of internal control, designed to meet the Council's objectives, and that controls are generally being applied consistently."

16. 0 External Audit and Other Review/Assurance mechanisms

External Audit

- 16.1 External Audit is part of the process of accountability for public money. It makes an important contribution to the stewardship of public resources and the corporate governance of public services. The scope of External Audit work covers not only the audit of financial statements but also aspects of corporate governance.
- 16.2 In September 2013, the Council's external auditor produced their 'Report to those charged with governance (ISA 260) relating to the 2012/13 audit of the council's financial statements. The headlines from the ISA 260 report were that:-
- The auditors anticipate issuing an unqualified audit opinion by the 30 September 2013. NB This was subsequently issued.
 - The audit identified a total of four significant audit adjustments, all of which were adjusted by the Authority
 - Record keeping relating to fixed assets remain an area of concern
 - The auditors noted an improvement in the quality of the accounts and the supporting working papers
 - The Authority's organisation and IT control environment is effective overall
 - The auditors concluded that the Authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

16.3 In relation to 'audit matters of governance interest that arise from the audit of the financial statements' the report concluded "There are no other matters which we wish to draw your attention in addition to those highlighted in this report and our previous reports relating to the audit of the Authority's 2012/13 financial statements".

Corporate Peer Challenge

16.4 There were a number of positive outcomes identified in the Corporate Peer Challenge Report, following the review that was carried out in December 2013. These were:-

- "There has been a huge amount of regeneration and development activity in Gloucester over recent years and the council can be proud of what has been achieved in this regard"
- "There is good cross-party working politically and mutual respect between elected members"
- "Council staff are committed and conscientious and clearly want to do their best for Gloucester and the council"
- "The Council is valued by external partners and it is seen as good to work with"
- "The Council has dealt successfully with the financial challenges to date"

16.5 The report also referred to "a very difficult and challenging situation in late 2012" and the need to now move things forward. The following key areas have been identified as being important :-

- Elected members and officers at all levels need to better understand their respective roles and responsibilities and adhere to them. The senior political and managerial leadership need to lead the way on this
- The leader and Chief Executive need to continue to be willing to invest the time and effort to re-build relations and adapt their style and approaches. They also need to take the lead in fostering the leadership style and approach that is desired across the council.
- The senior political and management leadership of the council needs to improve the dialogue between them and the wider organisation.

16.6 As a result of the report findings, an Action Plan has been produced detailing proposed actions to implement the findings from the report.

Director of Resources and Head of Finance Statement (Former and Current S151 Officers)

16.7 To comply with the CIPFA Code of Practice on Local Authority Accounting, a specific statement is required to be reported in the Annual Governance Statement on whether the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) to ensure an effective system of internal control is maintained and operated in connection with the resources concerned. The Director of Resources and Head of Financial Services, have confirmed that the authority's financial management arrangements conform with the CIPFA Statement, and have also made the following comments in paragraphs 17.7 to 17.13, below:

16.8 The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the council. In particular, the system includes:

- Budget systems
- Reviews of periodic and annual financial reports which indicate financial performance against the forecasts;
- Setting targets to measure financial and other performance
- The preparation of financial reports which indicate actual expenditure against the forecasts;
- Capital expenditure arrangements and project management disciplines.

16.9 The review of the effectiveness of the system of internal financial control is informed by:

- The work of managers within the Council
- The work of internal auditors as described above, and
- The external auditors in their annual audit letter and other reports

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

16.10 The arrangements for internal audit are as set out in the Annual Governance Statement (paragraph 16) and we are satisfied that they operate to a defined standard. A review of the effectiveness of internal audit has been undertaken and reported to the Audit Committee. The Head of Internal Audit has also provided an independent opinion in his annual report stating that he is satisfied the council has an adequate control environment in place.

16.11 The work of both Internal and External Audit has further confirmed our view, endorsed by SMT and the Corporate Governance Group, that following implementation of the Financial Services Improvement Plan, it is now essential that as next steps, that ongoing ownership and accountability for financial management are embedded across the Council.

16.12 Significant improvements have been implemented as part of the financial services improvement plan. The Council has completed its financial statements for the last two consecutive financial years earlier than ever before in the life of the council. The challenge has been to make these changes sustainable - and over the last 12 months, the Financial Services team has been restructured and 3 Senior Accounting posts have been appointed to, with the necessary skills to deliver a professional accounting service on an ongoing basis. This has ensured both short term and long term service resilience.

16.13 Risk Management is the process by which risks are identified, evaluated and controlled, and is a key element of the governance framework. Ongoing reviews of the strategic risk register has been undertaken throughout the year to ensure any

risks associated with the achievement of the Council's aims and objectives in the corporate strategy 'Transforming Your City' have been identified. Regular reviews of service plans and risk registers and the Strategic Risk Register are carried out by SMT supported by the Officer Risk Champion.

Other sources of Assurance

17.13 A further source of assurance has been obtained from the use of Management Assurance Statements. These Statements have been issued to all Directors and Group Managers, and they have been requested to complete, and to identify any significant internal control issues within their portfolio. There were no significant control issues identified.

18.0 Significant governance issues

18.1 We have been advised of the implications of the result of the review of the effectiveness of the governance framework by the Corporate Governance Group. A plan to ensure continuous improvement of the system is in place and key actions identified is appended to this statement.

18.2 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed

Paul James
Leader of the Council

Peter Gillett
Director of Resources

Annual Governance Statement Action Plan 2014-15

No.	Core Principle	Governance issue	Responsible Officer	Action Required
1	Promote values for the authority and demonstrate the values of good governance through the upholding of high standards of conduct and behaviour.			
2	Take informed and transparent decisions, which are subject to effective scrutiny and managing risk.	An external review of the Governance arrangements of Gloucestershire Airport Ltd, jointly commissioned by Gloucester City and Cheltenham Borough Councils. Whilst the report is not yet finalised, it will make recommendations for ongoing improvements to both governance and operations at the airport.	AH/JT/SM	To implement the recommendations made by York Aviation, through a report to Cabinet and Full Council in July 2014.
3	Develop the capacity and capability of members and officers to be effective.	Key areas identified from the Corporate Peer Challenge Report	SMT	See below
	External Audit and Other Review/Assurance mechanisms	Key areas identified from the Corporate Peer Challenge Report	SMT	<p>A comprehensive action plan to address each of the key recommendations arising from the peer challenge is being produced a draft of which was discussed with political Group Leaders on 16th June 2014.</p> <p>This approach to producing and monitoring the action plan is an inclusive one – and has been informed</p>

No.	Core Principle	Governance issue	Responsible Officer	Action Required
				<p>by staff involvement and feedback, which was completed in May 2014. In addition, following the Group leaders meeting on 16th June, all City Council members have also been given the opportunity to contribute to this process, with a timescale of 30th June.</p> <p>The action plan when finalised with member comments will be closely monitored throughout the year.</p>

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Gloucester City Council

Meeting:	Audit & Governance Committee	Date:	26 June 2014
	Council		17 July 2014
Subject:	Audit & Governance Committee Annual Report 2013/14		
Report Of:	Chair - Audit & Governance Committee		
Wards Affected:	N/A		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Terry Rodway Audit, Risk & Assurance Manager		
	Email:	Terry.Rodway@gloucester.gov.uk	Tel: 396430
Appendices:	A: Audit & Governance Committee Annual Report 2013/14		
	B: Audit & Governance Committee – Revised Terms of Reference		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 The report introduces the Annual Report of the Audit and Governance Committee. The Annual Report sets out the work and achievements of the Council's Audit and Governance Committee during 2013/14.

2.0 Recommendations

- 2.1 Council is asked to **RESOLVE** that:

- (1) The Annual Report of the Audit and Governance Committee 2013/14 be approved.

3.0 Background and Key Issues

- 3.1 The preparation of an annual report by the Council's Audit and Governance Committee is recognised as good practice within both the public and private sectors.
- 3.2 This Annual Report, which details the work and achievements of the Audit and Governance Committee during 2013/14 was discussed, and approved, by the Audit & Governance Committee at its meeting held on 26th June 2014.
- 3.3 The report, when agreed, will be published and circulated to interested groups.

4.0 Alternative Options Considered

- 4.1 Not applicable.

5.0 Reasons for Recommendations

- 5.1 Best practice from both the public and private sectors indicates that the audit committee should report directly to the governing body of the organisation. In the case of a local authority, the full Council. This will assist in giving it independence from the executive and scrutiny functions, and in addition provides status and clarity to the role.

6.0 Future Work and Conclusions

- 6.1 Best practice from both the public and private sectors indicates that the audit committee should report directly to the governing body of the organisation. The Audit & Governance Committee will continue to present an annual report to the full Council.

7.0 Financial Implications

- 7.1 None specific to this report.

(Financial Services have been consulted in the preparation this report.)

8.0 Legal Implications

- 8.1 None specific to this report.

(Legal Services have been consulted in the preparation this report.)

9.0 Risk & Opportunity Management Implications

- 9.1 Good corporate governance requires independent, effective assurance about both the adequacy of corporate, operational and financial management and reporting, and the management of other processes required to achieve the organisation's corporate and service objectives. These functions are best delivered by an audit committee, independent from the executive and scrutiny functions.

10.0 People Impact Assessment (PIA):

- 10.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

11.0 Other Corporate Implications

Community Safety

- 11.1 There are no community safety implications arising out of this report.

Sustainability

- 11.2 There are no sustainability implications arising out of this report.

Staffing & Trade Union

11.3 There are no staffing and trade union implications arising out of this report.

Background Documents: Audit & Governance Committee meeting minutes 2013/14

Audit & Governance Committee Annual Report 2013/14

1. Background

- 1.1 The original Audit Committee was established by the Council in May 2006. Whilst there is no statutory obligation to have an Audit Committee, they are widely recognised as a core component of effective governance. In recent years there has been a significant amount of regulation and guidance issued in governance arrangements for private and public sector bodies, the common feature of governance arrangements being the existence of an Audit Committee.
- 1.2 As a result of the Localism Act 2011, which made fundamental changes to the system of regulation of standards of conduct for elected and co-opted Councillors, the Council agreed, in May 2012, to combine the roles of the Standards Committee and the Audit Committee and establish an Audit and Governance Committee. The transfer of responsibility from the Standards Committee to the Audit and Governance Committee necessitated changes to the Terms of Reference for the Audit and Governance Committee.
- 1.3 Good corporate governance requires independent, effective assurance about both the adequacy of corporate, operational and financial management and reporting, and the management of other processes required to achieve the organisation's corporate and service objectives. Effective audit committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors.
- 1.4 The Terms of Reference for the Audit & Governance Committee are based on CIPFA guidelines. As a result of the issue by CIPFA of updated guidance i.e. 'Audit Committees – Practical Guidance for Local Authorities and Police (2013 Edition)', a review of the Terms of Reference for the Committee was carried out in March 2014. A copy of the revised Terms of Reference, which have been recommended to Council for approval, can be found at Appendix 1 of this report.

2.0 Membership & Attendance

2.1 The Committee has enjoyed the benefit of a settled membership over the last couple of years, with only a small number of changes in membership. This has helped to build and retain the expertise within the Committee, which has led to the Committee being able to demonstrate that they are operating within a best practice framework.

2.2 The following were Members of the Audit and Governance Committee for 2013/14:

Cllr Declan Wilson – Chair
Cllr Mark Hobbs – Vice Chair
Cllr Phil McLellan
Cllr Lise Noakes
Cllr Jim Porter
Cllr Debbie Llewellyn
Cllr Matthew Gilson

2.3 During 2013/14, the Audit & Governance Committee met on the following dates:

- 24th June 2013
- 23rd September 2013
- 25th November 2013
- 27th January 2014 – Special Meeting re update on Peer Review
- 17th March 2014

2.4 The Cabinet Member for Performance (Cllr Fred Wood) was a regular attendee, as an observer, at Committee meetings during the year.

2.5 Senior Officers from the Council also attended Audit and Governance Committee meetings, with the Director of Resources, the Audit, Risk & Assurance Manager, the Head of Legal & Policy Development, and the Head of Financial Services being regular attendees. A representative from the Council's External Auditors, KPMG, also attended every Committee.

2.6 The Chair and Vice Chair also attended briefing meetings with the Director of Resources, the Audit, Risk & Assurance Manager, the Head of Legal & Policy Development, and the Head of Financial Services, before each Committee meeting.

3.0. Programme of Reports 2013/14

3.1 Detailed below is the programme of reports considered by the Audit and Governance Committee during 2013/14, and how they relate to the Committees Terms of Reference.

Governance, risk and control

- Annual Governance Statement 2012/13
- Annual Governance Statement Action Plan 2013/14
- Review of Whistleblowing Policy
- Risk Management Annual Report 2013
- RIPA - Annual review of Procedural Guidance
- Peer Review
- Service Risk Registers (verbal updates)

Internal Audit

- Audit, Risk & Assurance Manager Annual Report 2012/13
- Review of Effectiveness of Internal Audit 2012/13
- Public Sector Internal Audit Standards
- Internal Audit Plan 2013/14 - Quarterly Monitoring Reports
- Internal Audit Annual Plan 2014/15
- Response to Internal Audit Recommendations – Streetcare, Markets, Payroll Contract, Response Repairs Contract.

External Audit

- Annual Audit Letter 2011/12
- Annual Audit Letter 2012/13
- Progress Report – 2012/13 audit
- Certification of Grants and Returns 2012/13
- External Audit Plan 2013/14

- Annual Audit Fee 2013/14

Financial Reporting

- Year End Statement of Accounts 2012/13
- External Auditor Report to Those Charged with Governance (ISA 260) 2012/13
- Financial Services Improvement Plan

Treasury Management

- Treasury Management Strategy 2013/14
- Treasury Management Strategy 2014/15
- Treasury Management Quarterly Performance Monitoring Reports

Constitution and Standards

- Annual Complaints Monitoring
- Review of the Council's Standards Arrangements
- Committee on Standards in Public Life – Annual Report 2012/13
- Standards arrangements under the Localism Act 2011
- Local Government Ombudsman – Annual Review Letter

4.0 Annual Report

- 4.1 The work of internal and external audit provided detailed assurance on the reliability and integrity of the information held in the financial statements as well as on the key control framework in operation across the Council.
- 4.2 The assurances from the Director of Resources and the Head of Financial Services, and, the work of internal and external audit, together support the committee in forming their opinion of the financial statements, enabling them to agree for the Chair of the Committee to sign the Statement of Accounts 2012/13 within the statutory timeframe.
- 4.3 The Committee reviewed and approved the Annual Governance Statement (AGS) at the same time as the approval of the Statement of Accounts.
- 4.4 The Committee considered the effectiveness of the internal audit arrangements by reviewing the annual assessment of the Director of Resources, the view of external audit, and, the quality of reports, actions and follow ups through the quarterly monitoring reports submitted throughout the year to Committee.
- 4.5 In accordance with good practice, the Committee held their annual, private meeting with the Council's External Auditors (KPMG).
- 4.6 The Committee is able to request Managers to attend the Committee to give an update on progress against agreed actions to reduce risk and/or improve the existing control environment. During 2013/14, the Committee invited the Head of Neighbourhood Services, the Asset Manager, the Markets Manager, and, the Financial Projects Supervisor to provide an update on the implementation of internal audit recommendations within their respective areas.
- 4.7 During the year, the Committee maintained an Action Plan. This was reviewed at each committee meeting to monitor progress with implementing agreed actions.

4.8 As stated above, as a result of the issue by CIPFA of updated guidance i.e. 'Audit Committees – Practical Guidance for Local Authorities and Police (2013 Edition)', a review of the Terms of Reference for the Committee was carried out in March 2014. A copy of the revised Terms of Reference, which have been recommended to Council for approval, can be found at Appendix 1 of this report.

4.9 Due to current workload of the Committee, a review was also undertaken of the frequency of Committee meetings. This resulted in a recommendation being made to Council to increase the frequency of meeting from 4 to 5 per civic year.

5.0 Future Work

5.1 During 2014/15, the Audit & Governance Committee will continue with the existing aim of being an important source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance.

Audit & Governance Committee – Revised Terms of Reference (Subject to approval by Council)

Governance, risk and control

1. To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
2. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
3. To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
4. To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
5. To monitor the effective development and operation of risk management in the Council.
6. To monitor progress in addressing risk-related issues reported to the Committee.
7. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
8. To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
9. To monitor the counter-fraud strategy, actions and resources.

Internal Audit

10. To approve the internal audit charter.
11. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
12. To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
13. To approve significant interim changes to the risk-based internal audit plan and resource requirements.
14. To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resource limitations.
15. To consider reports from the Head of Internal Audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
 - a. Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
 - b. Regular reports on the results of the Quality Assurance and Improvement Programme.
 - c. Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.

16. To consider the Head of Internal Audit's annual report:
 - a. The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement.
 - b. The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with a summary of the work supporting the opinion.
17. To consider summaries of specific internal audit reports as requested.
18. To receive reports outlining the action taken where the Head of Internal Audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
19. To contribute to the Quality and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
20. To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.
21. To support the development of effective communication with the Head of Internal Audit.

External Audit

22. To consider the external auditor's annual letter, relevant reports, and the report of those charged with governance.
23. To consider specific reports as agreed with the external auditor.
24. To comment on the scope and depth of external audit work and to ensure it gives value for money.
25. To commission work from internal and external audit.
26. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

27. To review the statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
28. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Treasury Management

29. To review and monitor treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.

Accountability arrangements

30. To report to those charged with governance on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.
31. To report to full Council on a regular basis on the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose.

Constitution and Standards

32. To consider and review changes to the Council's constitution in respect of Contract Standing Orders, Financial Regulations, and Codes of Conduct and behaviour.
33. To monitor the operation of the Council's codes and protocols (see Part 5 of this Constitution) and the Council's complaints process and to advise the Council on the adoption or revision of such codes.
34. To consider the Council's compliance with its own published standards and controls.
 35. To review any issues referred to it by the Chief Executive or a Corporate Director or any Council body.
35. To receive allegations and any accompanying report from the Monitoring Officer and to refer the allegation to the Monitoring Officer for formal investigation or informal resolution.
36. To set up, where necessary, a Hearings Panel to consider any alleged breach of the Members' Code of Conduct.
37. To promote and maintain high standards of conduct by Councillors and co-opted Members.
38. To assist Councillors and co-opted Members to observe the Members' Code of Conduct.
39. To advise the Council on the adoption, revision of, or publicity on the Members' Code of Conduct.
40. To advise, train or arrange to train Councillors and co-opted Members on matters relating to the Members' Code of Conduct.
41. To grant dispensations to Councillors and co-opted Members from the requirements relating to interests set out in the Members' Code of Conduct or other Council codes and protocols where:
 - (a) without the dispensation, the representation of different political groups on the body transacting the business would be so upset as to alter the outcome of any vote on the matter;
 - (b) the Committee considers that the dispensation is in the interests of persons living in the Council's area; or
 - (c) the Committee considers that it is otherwise appropriate to grant a dispensation.
42. To consider appeals against decisions made by the Monitoring Officer in exercise of their dispensation powers.
43. To set up, where necessary, a Sub-Committee to shortlist and interview candidates for the role of Independent Person and to make recommendations to Council regarding the appointment of Independent Persons.
44. To provide such advice and assistance as appropriate regarding the appointment of the Independent Person as required under Part 7 of the Localism Act 2011.
45. To set the allowances and expenses payable to the Independent Person and Reserve Independent Persons.

Gloucester City Council

Meeting:	Audit and Governance Committee	Date:	26 June 2014
Subject:	Independent Person Protocol		
Report Of:	Monitoring Officer		
Wards Affected:	All		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Sue Mullins, Monitoring Officer		
	Email: sue.mullins@gloucester.gov.uk	Tel:	39-6110
Appendices:	1. Draft Independent Person Protocol		

1.0 Purpose of Report

1.1 To consider the adoption of a protocol in relation to the Independent Person.

2.0 Recommendations

2.1 The Audit and Governance Working Group is asked to approve the draft Independent Person Protocol at Appendix 1.

3.0 Background and Key Issues

3.1 The Localism Act 2011 (the “Act”) made fundamental changes to the system of regulation of standards of conduct for elected and co-opted Councillors and these changes were implemented on 1 July 2012. The duty which already applied to local authorities to promote and maintain high standards of conduct for elected and co-opted members was retained in the Act.

3.2 The Act requires the Council to adopt “arrangements” for dealing with complaints of breach of Code of Conduct both by City Council Members and by Parish Council Members, and such complaints can only be dealt with in accordance with such “arrangements”. The Council adopted its Code of Conduct and its arrangements for dealing with complaints of breaches of the Code of Conduct at its meeting on 19 July 2012 and has recently revised it to include changes to the seven principles.

3.3 In accordance with these provisions, the Council has also appointed an Independent Person. Advertisements for the role of the Independent Person were made in advance of the appointment, with a role profile and guidance circulated to the candidates for the post. The Council’s current Independent Person is Ms Lizzie Abderrahim.

3.4 While the current provisions in relation to the Independent Person and the framework for considering any complaints made against members are sufficient for any complaints to be properly investigated, there remains scope for additional clarity with regard to the precise role of the Independent Person in the complaints process.

3.5 A proposed protocol giving finer detail on the role of the Independent Person, particularly in dealing with complaints made against Members is set out at Appendix 1. The protocol is proposed as a supplement to Standards Arrangements within the Constitution (Part 4 – Rules of Procedure). The Standards Arrangements will remain as the primary document guiding the Council’s response to any complaints received against members in relation to the Code of Conduct.

3.6 The Working Group considered the protocol on 6 March 2014 and approved the draft attached at Appendix 1 for the purposes of consultation with the Independent Person. Ms Abderrahim had no comments on the draft protocol and it is now presented to Audit and Governance Committee for approval.

4.0 Alternative Options Considered

4.1 The Council could choose not to have a protocol in place but this could lead to a situation where there is a lack of transparency about the Independent Person’s role.

5.0 Reasons for Recommendations

5.1 Ensuring high standards of behaviour by councillors is an important part of maintaining a fit for purpose council. The adoption of a protocol for interaction with the Independent Person would clearly assist in the operation of a clear, open, and effective procedure for investigating any complaints made against members.

6.0 Future Work and Conclusions

6.1 If the Committee approves the protocol, it will be included in Part 5 of the Council’s Constitution – Codes and Protocols and will be publically available. The protocol can be reviewed by the Committee at any time.

7.0 Financial Implications

7.1 There are no financial implications arising from this report.

(Financial Services have not been consulted in the preparation this report.)

8.0 Legal Implications

8.1 Under the Localism Act 2011, the Council is required to adopt a Code of Conduct and to make arrangements for dealing with breaches of the Code under the Code for both itself and Parish Councils.

(Legal Services have been consulted in the preparation this report.)

9.0 Risk & Opportunity Management Implications

9.1 Regular consideration of complaints enables the Council to ensure that its governance arrangements are appropriate and up-to-date.

10.0 People Impact Assessment (PIA):

10.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

11.0 Other Corporate Implications

Community Safety

11.1 There are no community safety implications.

Sustainability

11.2 There are no sustainability implications.

Staffing & Trade Union

11.3 There are no staffing implications.

Background Documents: None.

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DRAFT PROTOCOL RELATING TO THE INDEPENDENT PERSON

1. Purpose

The purpose of this protocol is to make clear the relationships between the Independent Person and the various parts of the local authority involved in the process of handling standards complaints and wider promotion of standards. Its aim is to ensure that responsibility is clear at each stage of the process and to set out the expectations and rights of the Independent Person.

2. Background

The Independent Person (IP) is a statutory appointment under Section 28 of the Localism Act 2011. The purpose of the IP role is to enable the public to have confidence in how the City Council deals with allegations of misconduct and to promote and maintain high ethical standards of conduct for Members, ensuring they are adequately trained and understand the Code of Conduct.

3. IP Overarching Responsibilities

The IP will discharge their responsibilities with a positive determination and in a manner that enhances the overall reputation of the Council. In particular, by:

- 1) Instilling public confidence in the process and how complaints are considered by the Audit and Governance Committee and Officers in support;
- 2) Complying with:
 - a. the law, including any relevant Code of Conduct;
 - b. any general guidance issued;
 - c. procedures adopted by the Audit and Governance Committee;
 - d. the Council's Constitution;
- 3) Preserving confidentiality at all times; and
- 4) Acting impartially and in the interests of fair and natural justice, without prejudice or political bias.

4. Contact with the IP by Councillors subject to complaint

A Member of the City Council or of Quedgeley Parish Council who is the subject of a complaint should only contact the Independent Person if a formal complaint has been made in writing to the Council. The Monitoring Officer will notify the IP of all formal complaints. If a Member contacts the IP prior to a formal complaint being lodged, the IP will refer them to the Monitoring Officer.

The IP should not discuss a potential or actual complaint directly with a potential or actual complainant and shall refer the complainant to the Monitoring Officer.

5. Considering written allegations

The Monitoring Officer will seek the views of the IP in accordance with the Council's standards arrangements. While the Monitoring Officer will have regard to the views expressed by the IP, they are not bound to accept his/her views on the matter.

When issuing the decision letter in respect of any written allegation, the Monitoring Officer will record that the IP has been consulted and that their views have been taken into account. Where the view of the Monitoring Officer and IP differ, the Monitoring Officer will record the reasons for following a particular course. The letter will make clear that it is the Monitoring Officer and not the IP who is the decision-maker.

6. Matters under investigation

The Monitoring Officer may consult the IP at any stage during the process, particularly on matters which relate to the procedures for handling complaints.

Where a matter has been referred to a Hearings Panel of the Audit and Governance Committee for determination, the Panel must seek the views of the IP before reaching its conclusions. The IP's role is to provide an independent view on the substance of the complaint and/or the quality of the evidence in order to help the Panel to make an informed decision.

The IP may attend the Hearings Panel in person to convey their view or may submit their views in writing to the Hearings Panel.

The IP's views should be recorded in any decision notice and, where those views do not reflect the final outcome reasons must be given for any differences. However, it must be clear that it is the Hearings Panel and not the IP who is the decision-maker.

7. Relationship with the Audit and Governance Committee

The IP is not a member of the Council's Audit and Governance Committee but is able to attend all meetings and can be asked to give their views to the Committee.

The IP shall receive agendas and minutes of all meetings of the Audit and Governance Committee and shall be entitled to request that items be added to the agenda, with the agreement of the Chair, and to speak at the Committee.

The IP does not have any voting rights when attending a meeting of the Audit and Governance Committee or a Hearings Panel.

8. Access to documentation

The IP has the right of access to any confidential information required to carry out their role. The IP shall respect the confidentiality of any documents provided to them and shall be responsible for their safe custody.

The IP has the right of access to Council buildings in order to carry out their role. This includes making meeting rooms available for use by the IP. Access should be agreed in advance with the Monitoring Officer.

The Monitoring Officer will meet at least quarterly with the IP review relevant matters.

The IP will agree to sign up to the Council's Code of Conduct, including a register of interests to be held by the Monitoring Officer and will declare any relevant interests in any matter to the Monitoring Officer, who will decide whether the interest conflicts them out of involvement in the matter.

9. Confidentiality

The IP must not discuss with any third party the substance of any past or present complaint or other matter raised with them by the Monitoring Officer.

The IP shall not make any comments to the media on any matter without prior agreement of the Monitoring Officer or Council Communications Team. Any requests for comments from media shall be referred in the first instance to the Monitoring Officer who may refer these to the Chair of the Audit and Governance Committee as appropriate.

10. Other matters

The Council, through its Audit and Governance Committee and Monitoring Officer, is responsible for ensuring that the Council meets its duty to promote and maintain high standards. However, the IP has the right to be consulted on any proposed changes to the Code of Conduct or procedures for handling allegations.

The IP has the right to raise any concerns about standards issues or implementation of the process with the Council's Chief Executive and has the right to address a meeting of the full Council about any concerns.

The Monitoring Officer may ask the IP to support their efforts to try to resolve complaints informally where the basis of the complaint appears unsubstantial or otherwise does not appear to warrant a formal investigation or where an alternative route to formal investigation would appear to offer a better means of resolving the matter.

11. Role of reserve IP

Where the IP is unable to act because of a conflict of interest or because they are otherwise unavailable their role will be carried out by the reserve IP.

If both the IP and the reserve IP are conflicted out from dealing with a matter, the Monitoring Officer will consider making a request to use the services of an IP from another principal authority.

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Gloucester City Council
Audit and Governance Work Programme 2014-15
(updated 17 June 2014)

Item	Format	Lead Officer	Comments
8 SEPTEMBER 2014:			
1. Audit and Governance Committee Action Plan	Timetable	-----	Standing agenda item requested by the Committee
2. Complaints Report	Written report	Customer Services Manager	Part of the Committee's annual work programme
3. Annual Complaints Monitoring	Written report	Head of Legal & Policy Development	Part of the Committee's annual work programme
4. Internal Audit Plan – Quarterly Monitoring Report	Written report	Audit, Risk and Assurance Manager	Part of the Committee's annual work programme
5. Treasury Management – Performance Report	Written report	Head of Finance	Part of the Committee's annual work programme
6. Audited Statement of Accounts	Written report	Head of Finance	Part of the Committee's annual work programme
7. External Audit ISA 260 Report	Written report	Darren Gilbert, KPMG	Part of the Committee's annual work programme
8. Annual Governance Statement – Update on Actions	Written report	Corporate Director of Resources	Part of the Committee's annual work programme
9. Business Rates Pooling Annual Report	Written report	Head of Finance	Part of the Committee's annual work programme
10. Treasury Management Quarter 1 Report	Written report	Head of Finance	Part of the Committee's annual work programme

Item	Format	Lead Officer	Comments
8 SEPTEMBER 2014 (Continued):			
11. Annual Standards Report	Written report	Head of Legal & Policy Development	Part of the Committee's annual work programme
12. Audit and Governance Committee Work Programme	Timetable	-----	Standing agenda item
4 DECEMBER 2014: (PROVISIONAL DATE – TO BE CONFIRMED)			
1. Audit and Governance Committee Action Plan	Timetable	-----	Standing agenda item requested by the Committee
2. RIPA – Annual Update	Written report	Head of Legal and Policy Development	Part of the Committee's annual work programme
Treasury Management Quarter 2 Report	Written report	Head of Finance	Part of the Committee's annual work programme
Audit and Governance Committee Work Programme	Timetable	-----	Standing agenda item
16 MARCH 2015:			
Item	Format	Lead Officer	Comments
1. Audit and Governance Committee Action Plan	Timetable	-----	Standing agenda item requested by the Committee
2. Treasury Management Strategy	Written report	Head of Finance	Part of the Committee's annual work programme
3. Treasury Management Quarter 3 Report	Written report	Head of Finance	Part of the Committee's annual work programme
4. Audit and Governance Committee Work Programme	Timetable	-----	Standing agenda item

FUTURE AGENDA ITEMS (NO DATE FIXED YET):

- Review of the Whistleblowing Policy
- Review of the Council's Anti-Fraud Arrangements

FUTURE AUDIT & GOVERNANCE COMMITTEE MEETING DATES:

- Monday, 15 June 2015
- Monday, 21 September 2015

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